ARKANSAS DEVELOPMENT FINANCE AUTHORITY

Neighborhood Stabilization Program

Policies and Procedures Manual

June 2009

EQUAL HOUSING OPPORTUNITY

Arkansas Neighborhood Stabilization Program (NSP)

Policies and Procedures Manual

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I. Introduction

The Neighborhood Stabilization Program (NSP) for Arkansas is authorized by the Housing and Economic Recovery Act ("HERA") (Public Law 110-289), which was signed into law on July 30, 2008. Originally introduced as HR 3221, HERA Division B, Title III establishes the NSP grant under the Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes heading. NSP was revised in February 2009 with the passage of the American Recovery and Reinvestment Act of 2009 (ARRA). The NSP is administered by the U.S. Department of Housing and Urban Development ("HUD") and is considered a special Community Development Block Grant ("CDBG") allocation. CDBG allocations for Arkansas are administered by statute by the Arkansas Economic Development Commission ("AEDC"). Arkansas was allocated $19,600,000 in NSP funds by HUD.

Arkansas Development Finance Authority ("ADFA") has been designated by AEDC as administrator of NSP funds for the State of Arkansas. This designation is by virtue of a Memorandum of Understanding (MOU) executed by AEDC and ADFA dated October 7, 2008.

ADFA will administer NSP effectively and efficiently under the housing conditions that exist in the State of Arkansas (the "state") and with all practical safeguards against waste or fraud. ADFA will practice and advocate innovation, flexibility, and expansion in program design to address unmet housing needs and to address foreclosed and abandoned properties throughout the state. To that end, this policy and procedures manual is presented to provide an overview of ADFA policies and procedures as they pertain to NSP and step-by-step guidance on the implementation of NSP projects in the State of Arkansas. This manual is organized into the following sections:

- II. Purpose of the Neighborhood Stabilization Program
- III. General Requirements of NSP
- IV. The NSP Rental Housing Program
- V. The NSP Homeownership Housing Program
- VI. Glossary
- VII. Appendix I (Needs Score)

This manual is not meant to be a substitute for NSP regulations, but as a supplement to them. It is not exhaustive regarding all considerations affecting the use of NSP funds. While careful consideration and due care has been used in developing the manual, NSP participants are encouraged to consult with NSP staff to ensure correct interpretation of policies and regulations. ADFA reserves the right to implement additional policies as needed.

II. Purpose of the Neighborhood Stabilization Program

The Neighborhood Stabilization Program (NSP) is authorized by the Housing and Economic Recovery Act ("HERA") (Public Law 110-289) and requirements contained in the HUD Federal Register Notice published October 6, 2008 (Docket No. FR-5255-N-01) and as revised in a "Bridge Notice" published June 15, 2009 (Docket No. FR-5255-N-02). (The Bridge Notice includes changes from the American Recovery and Reinvestment Act of 2009 (ARRA).)

The primary purpose of NSP is to provide emergency assistance for the state to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. Arkansas' NSP program provides loans to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop homes in order to stabilize neighborhoods and stem the decline of house values in neighboring homes.

As the administrator of the state of Arkansas' NSP funds, ADFA has designed its programs into two main categories—the NSP Rental Housing Program and the NSP Homeownership Housing Program.

III. General Requirements of NSP

A. Allocation of Funds

NSP funds committed to the state of Arkansas will be allocated as promulgated in the State of Arkansas' 2009 Amendment to the Consolidated Plan. In addition, the state may spend up to ten percent (10%) of its NSP allocation and 10% of any program income for administrative and planning expenses.

ADFA anticipates that the amount of funds that will be applied for and approved will vary with the needs and capacity of local organizations in different areas of the state. ADFA is required to ensure that funds are used to address the areas of greatest need in terms of foreclosure. Therefore, ADFA will review and rank applications based on the Proposal Scoring Criteria, outlined in the Consolidated Plan Amendment for NSP and attached as Appendix I to this document. See also Section C "Application Selection Criteria" below.

In addition, ADFA is required to ensure that all NSP funding is obligated within 18 months following the execution of the NSP grant agreement with HUD, which occurred in March 20, 2009. Therefore, ADFA reserves the right to award funds to projects that are "ready to go" and to further adjust contracted amounts based upon actual performance and progress to obligate the funds within the initial 18 months of the grant agreement date or by September 20, 2010.

B. Eligible Applicants

NSP funding is available statewide to entitlement cities, participating jurisdictions, ADFA-designated Community Housing Development Organizations ("CHDOs"), non-profit organizations, for-profit organizations, developers, units of local government provided the entity is in good standing with ADFA, the State of Arkansas, and the applicants' respective regulating agencies.

A letter of support from the chief elected official (CEO) of the applicable local jurisdiction must be provided with each application for NSP funds.

The eligible applicant is the entity responsible for the NSP application, project development, project implementation, and accountability for uses of all NSP funds. The eligible applicant must adhere to required compliance and monitoring of all NSP activities for the full applicable affordability period. ADFA will allocate NSP funds to the approved eligible applicant as outlined in the NSP Program Agreement.

C. Application Selection Criteria

NSP funds awarded in Arkansas will be allocated on the basis of established need, capacity of the applicant, and quality and content of complete applications received by ADFA by application deadline. As mandated by HERA NSP regulations, priority in Arkansas is given to the areas having the greatest instance of foreclosures. Since NSP funds are intended to stabilize neighborhoods, only applications for eligible activities in existing neighborhoods will be considered. The NSP is not intended and shall not be used for properties that are a part of new developments which were overbuilt as determined by ADFA. ADFA reserves the right in its sole and absolute discretion to determine the level of existing neighborhood destabilization when considering proposals.

The Proposal Scoring Criteria includes the following:

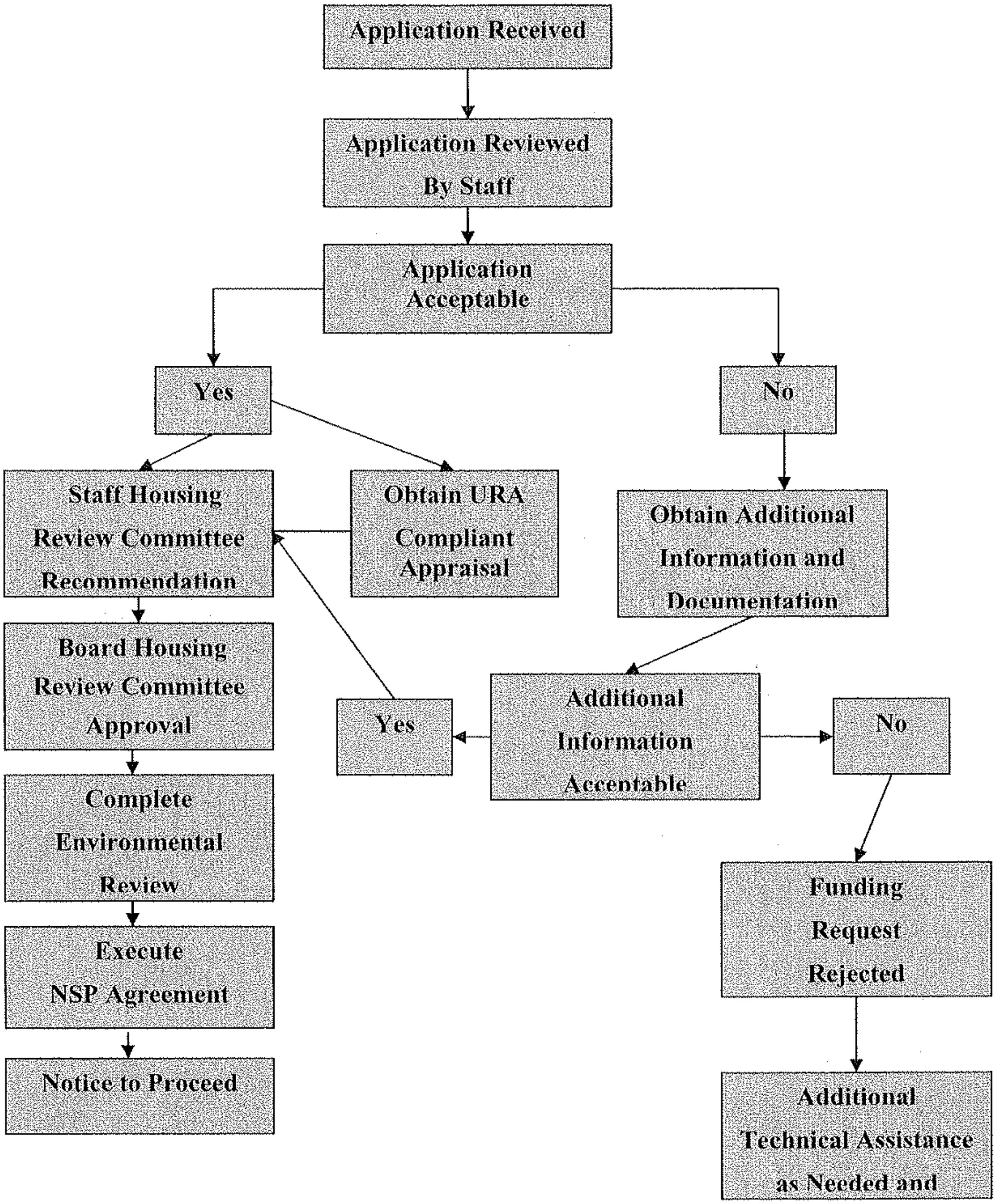
1. **Need** – The proposal must clearly demonstrate the specific areas to be assisted and the rationale for why this area and the specific properties have been or will be negatively impacted by foreclosure activity.
2. **Capacity** – The proposal must provide substantial information on the identity, location, and capacity of ALL partners who will be participating in NSP activities. The proposal must also fully demonstrate the ability of the applicant(s) to satisfactorily complete the proposed eligible CDBG activities within specified time lines. The applicant must provide specific examples of successful completion of the same or similar activities using CDBG, HOME, or other federal housing resources.
3. **Financing** – The proposal must clearly delineate the TOTAL resources expected to be used to complete the NSP activities proposed, including the exact amount of NSP funds requested in the proposal. All funding sources must be documented by firm financial commitments of the proposed amounts and uses of the funds. Leveraging of additional funds to NSP funds will be considered when reviewing and scoring the proposal.
4. **Quality of plan** – The proposal should clearly demonstrate the reasonableness of the proposed activities and funding in accomplishing the desired neighborhood stabilization results. Each proposal must require each NSP-assisted homebuyer to receive and complete at least eight (8) hours of homebuyer counseling provided by a HUD-approved housing counseling agency prior to obtaining a home mortgage loan.
5. **Ultimate neighborhood stabilization goals** – The proposal should specifically list units to be assisted and beneficiaries anticipated for assistance by the full scope of the submitted proposal. Include expected neighborhood stabilization benefits, number, type, and location of housing to be assisted, and number of expected eligible persons to benefit from NSP-funded activities.
6. **Time of Performance** – The proposal must include a reasonable and realistic time line for implementation of eligible activities, progress on those activities, and completion of ALL activities included in the proposal, including sale or rental of housing assisted using NSP funds.

D. Application Deadlines

ADFA will receive proposals through Tuesday, September 1, 2009. ADFA staff will review, evaluate, score, and make recommendations for approval to ADFA's Board of Directors for consideration at its regularly scheduled meeting on Thursday, November 19, 2009. If additional information is required by staff, the applicant must submit the documentation within thirty (30) calendar days of application deadline.

ADFA will develop and execute NSP agreements, committing NSP funds to the selected applicants by Thursday, December 31, 2009. Dependent upon the level of demand and award of NSP funds, ADFA reserves the right to extend the referenced time lines or establish additional funding rounds as necessary.

NSP Application Process Path



Note: Board Housing Review Committee approval, contingent upon acceptable URA appraisal.

E. Application Technical Assistance

Applicants may receive technical assistance by attending an informational training session prior to submitting an application. Sessions will address NSP and ADFA guidelines as well as application procedures. ADFA staff is also available to meet with applicants to provide technical assistance. Applicants must contact ADFA staff to establish a mutually convenient date, time, and venue.

F. Amendments to Applications

Any changes to any material aspect of the application, proposed development, or proposed activities must be presented as an amendment to the initial application for NSP funds. The request for amendment will go through the normal review and approval process as outlined in the "NSP Application Process Path" of this manual.

G. Eligible Activities

ADFA will distribute NSP funds for the following eligible activities:

1. Acquisition of abandoned and foreclosed properties
2. Rehabilitation of acquired abandoned and foreclosed properties
3. Demolition of blighted abandoned and foreclosed structures acquired using NSP funds for the purpose of rehabilitation or construction of housing
4. Reasonable developer's fees related to NSP-assisted housing rehabilitation or construction activities
5. New construction of affordable housing for sale or rental to eligible homebuyers/tenants
6. Sale of residential properties acquired or acquired/rehabilitated using NSP funds
7. Rental of residential properties acquired or acquired/rehabilitated using NSP funds
8. Payment of reasonable down payment and closing cost assistance
9. Interest rate buy-down for fixed-rate first mortgages for eligible purchasers
10. General administration and planning activities
11. Provision of homebuyer counseling to all purchasers of properties constructed, acquired, or acquired/rehabilitated with NSP funds

For purposes of implementing the NSP, an **abandoned property** is defined as such when all the following apply: 1) Mortgage or tax foreclosure proceedings have been initiated for that property, and 2) No mortgage or tax payment have been made for the property owner for at least ninety (90) days, and 3) The property has been vacant for at least ninety (90) days.

For purposes of implementing the NSP, a **foreclosed property** is defined as a property that, under state or local law, has a completed mortgage or tax foreclosure process and is currently owned by the lender or mortgagee. A foreclosure is not considered to be complete until after the property title has been transferred from the former owner under a foreclosure proceeding or transfer in lieu of foreclosure.

These and other definitions may be found in the Glossary at the end of this manual.

NSP Eligible Use*	CDBG Eligible Activities	Type(s) of Properties
A) **Financing mechanisms** for purchase & redevelopment of *foreclosed homes & residential properties*	■ Activity delivery cost for an eligible activity (designing & setting it up) ■ The financing of an NSP eligible activity – such as soft second loans, loan loss reserve, equity sharing ■ Other activities eligible in uses below ■ Housing counseling for those seeking to take part in the activity	Foreclosed residential properties only
B) **Purchase and rehabilitate** homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties	■ Acquisition ■ Disposition ■ Relocation ■ Direct homeownership assistance ■ Eligible rehabilitation and preservation activities for homes and other residential properties ■ Housing counseling for those seeking to take part in the activity	Foreclosed or abandoned residential properties only
D) **Demolish** *blighted* structures ONLY in connection with one of the other eligible uses	■ Clearance of blighted structures only in conjunction with one of the above activities	Any, but must be blighted
E) **Redevelop** *demolished* or *vacant* properties	■ Acquisition ■ Disposition ■ Public facilities and improvements ■ Housing counseling public services (limited to purchasers or tenants of redeveloped properties) ■ Relocation ■ New housing construction ■ Direct homeownership assistance ■ Housing counseling for those seeking to take part in the activity	Any, but property must be vacant

* NSP Eligible Use C - Land Banking is not allowed under the Arkansas NSP.

H. Meeting the Low-Moderate-Middle Income (LMMI) National Objective

All NSP-funded activities must meet HERA's Low-Moderate-Middle Income (LMMI) National Objective, which means to primarily benefit LMMI households. LMMI households are defined as households whose incomes do not exceed 120% of area median income, adjusted for family size (measured as 2.4 times the current Section 8 income limit for households below 50% of area median income, adjusted for family size). All households assisted using NSP funds shall have incomes which do not exceed 120% of area median income, adjusted for family size.

NOTE that if funding is used in areas that are CDBG entitlement communities (e.g., Bentonville, Conway, Fayetteville, Fort Smith, Hot Springs, Jacksonville, Jonesboro, Little Rock, North Little Rock, Pine Bluff, Rogers, Springdale, Texarkana, and West Memphis), area median income limits issued for that area apply (as opposed to the statewide limit).

Documentation that the national objective has been met must be completed when the project is funded. The income of each household will be determined and documented using the Part 5 (Section 8) definition of income identified in HUD's "Technical Guide for Determining Income and Allowances for the HOME Program" published in January 2005. This guide can be found at the following link:
http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/1780.cfm.

For 2-unit structures, at least one of the units must be occupied by a LMMI household. For multi-family rental structures of three or more units, a proportional share of the units must be occupied by LMMI households. (NOTE that this is different than the regular CDBG program requirements.) For example, if the total development cost is $1 m and NSP is providing $750,000, seventy-five percent (75%) of the units must be occupied by LMMI households.

NSP further requires that not less than twenty-five percent (25%) of the total NSP funds allocated to the State shall be utilized to provide permanent housing for households with incomes at or below fifty percent (50%) of the AMI.

I. Administrative and Project Delivery Costs

Units of local government and nonprofit entities acting as subrecipients are allowed to incorporate eligible NSP administrative costs. Eligible administrative costs are costs associated with administering the grant that are NOT directly related to the project itself. For example, a portion of the salary of a staff person that will oversee the NSP-funded program (carry out budgeting, reporting, general oversight) is an administrative cost. Project specific costs such as appraisals, title searches, etc. are considered project costs.

The maximum amount that can be requested for administrative costs is ten percent (10%) of the final allocation amount. Applicants who choose to use a consultant must include the consultant fee, if any, in an amount not to exceed ten percent (10%) of the requested NSP allocation in the proposed development budget. Any amounts requested for project delivery costs may be in addition to the requested NSP allocation amount. The NSP allocation may not include both a consultant fee and a project delivery cost reimbursement.

All for-profit entities are considered developers and nonprofit entities acting as developers (carrying out acquisition and rehabilitation activities only as defined by HUD) are NOT allowed to receive funding for administrative costs but may include eligible project delivery costs and a reasonable developers' fee in the requested NSP allocation amount (as supported by a budget).

J. Funding Disbursement

Following ADFA Board approval of the NSP application, the following processes will apply:

1. Disbursement of NSP funds will occur only when all of the following conditions have been met:
    a. Required environmental review process must be satisfactorily completed.
    b. Project closing documents shall reflect a project completion date acceptable to ADFA and the recipient of the NSP funds. The NSP Agreement will outline the payment of the NSP funds, (e.g., how the funds will be disbursed, i.e., prorate share, etc.) The NSP Agreement must contain provisions for the timing of NSP fund disbursements.
    c. ADFA staff must complete all Disaster Recovery Grant Reporting (DRGR) system set up procedures.
    d. A pre-construction conference is held. For rental activities the pre-construction conference must be conducted with the development team and an ADFA representative. For homebuyer activities the pre-construction conference must be conducted with the development team and an ADFA Inspector.
    e. ADFA must issue a Notice to Proceed. To ensure that all NSP requirements have been met, no work shall begin until all documentation has been executed and ADFA issues a Notice to Proceed. **NO APPLICATIONS WILL BE ACCEPTED ON A PROJECT WHERE CONSTRUCTION IS UNDERWAY.**
2. Retainage will be released thirty (30) days after the final inspection is approved and upon ADFA's receipt of all completion documentation.

For rental activities, the following completion documentation will be required prior to ADFA's release of retainage:

- All DRGR set up procedures complete by ADFA staff
- Certification of release of liens
- Hazard insurance
- Certificate of Occupancy issued by local jurisdiction, if applicable
- Certification of final inspection, Plumbing Certification, and Electrical Certification

For homebuyer activities, the following completion documentation will be required prior to ADFA's release of retainage:

- ADFA staff must complete all DRGR set up procedures
- Certification in release of liens
- Hazard Insurance
- Certification of Occupancy issued by local jurisdiction, if applicable, and
- Certification of final inspection, Plumbing Certification and Electrical Certification

If any NSP-funded project has an available balance after development completion and release of retainage, ADFA will deobligate those funds and reallocate such balance of NSP funds to other eligible activities according to ADFA's adopted NSP allocation process. ADFA must ensure that all NSP funds are obligated within 18 months after the execution of the grant agreement (March 20, 2009) with HUD or by September 20, 2010.

K. Reimbursement for Pre-Award Costs

Per OMB Circular A-87, Attachment B, paragraph 31 and HUD NSP regulations, ADFA may incur pre-award costs as if Arkansas was a new grantee preparing to receive its first allocation of CDBG funds. The date of pre-award costs is the date of submission of the Consolidated Plan Amendment, which is December 1, 2008.

Therefore, predicated on that authority, ADFA will allow NSP funds to be used to reimburse eligible pre-award costs to entities approved for an award of NSP funds, contingent upon the pre-award costs being included and documented in the applicant's proposal and adherence to all applicable requirements such as environmental review and the Uniform Relocation Act (URA). If the entity is NOT approved for an award of NSP funds, no reimbursement for pre-award costs will be allowed. Examples of allowable pre-award costs include, but are not limited to, appraisal fees, costs of a market study, costs of feasibility studies, and preparation of rehabilitation cost estimates.

Note: The most stringent requirements of any source of funds will apply to the project.

L. Combining NSP with Other Forms of Funding Assistance

NSP funds should be used efficiently and encourage partnerships between public and private entities. In keeping with this mission, ADFA requires that recipients leverage their NSP allocation to the greatest extent possible with funds from other sources. For example, three such sources include: USDA Rural Development, Low Income Housing Tax Credits, and the HOME Program.

- To obtain information about the programs offered by Rural Development, please contact USDA Rural Development, Attention: Multi-Family Department, 700 West Capitol, Little Rock, AR 72201.
- To obtain information about ADFA's Low Income Housing Tax Credit Program, please contact ADFA, Attention: Multi-Family Department, 423 Main Street, Suite 500, Little Rock, AR 72201.
- To obtain information about ADFA's HOME Program, please contact ADFA, Attention: HOME Program Manager, 423 Main Street, Suite 500, Little Rock, AR, 72201.

M. Performance Standards and Recapture of Funds

It is imperative that funds allocated to participants be used as quickly as possible and in the most efficient manner. Therefore, seventy-five percent (75%) of total NSP funds allocated must be disbursed on the development within one year from the date of the notice to proceed to a development. If these performance standards are not met, any unspent NSP funds may be recaptured and reallocated to fund other affordable housing developments.

For developments applying for both NSP funds and LIHTC, any allocation of NSP funds is contingent upon the successful reservation of LIHTC.

Applicants approved for funding that do not complete the required number of units will be considered in default of their NSP Agreement. **ADFA will recapture allocated funds that have not been used in accordance with these performance standards and NSP regulatory commitment and disbursement requirements.** These funds will be placed back into the pool of funds that are available to fund other eligible NSP activities.

N. Requirements for Subrecipients

If a non-profit organization is awarded funds for the acquisition and rehabilitation of residential property, the non-profit is considered a developer. However, in all other cases, a non-profit is considered a subrecipient. Subrecipients may be government entities or non-profits. Subrecipients are subject to comprehensive administrative and financial management requirements similar to ADFA, and ADFA is required to monitor the organizations for compliance.

Subrecipients that are government agencies are subject to the requirements set forth in OMB Circular A-87 "Cost Principles for State and Local Governments," certain provisions of 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," and A-133 "Audits of State and Local Governments and Nonprofit Organizations." Subrecipients that are nonprofit organizations are subject to OMB Circular A-122 "Cost Principles for Nonprofit Organizations," certain provisions of 24 CFR Part 84 "Grants and Agreements with Institutions of Higher Learning, Hospitals and Other Nonprofit Organizations," and A-133 "Audits of State and Local Governments and Nonprofit Organizations."

Subrecipients are required to comply with the requirements set forth in the subrecipient agreement signed by the ADFA and the subrecipient. As required by 24 CFR 570.501(b), ADFA will monitor subrecipients to ensure that NSP funds are being used in accordance with all program requirements and that subrecipients are adequately performing as required under subrecipient agreements and procurement contracts. If performance problems arise, ADFA will take appropriate actions as described in 24 CFR 570.910.

See also Section I. Administrative and Project Delivery Costs.

O. Acquisition of Properties Using NSP Funds

<u>Acquisition, Sales Contracts, and Obligations</u>

ADFA must have executed sales contracts for specific properties for funds to be considered obligated. Options or other non-binding instruments are not acceptable.

<u>Appraisals and Discount Requirements</u>

Properties with an anticipated value exceeding $25,000 and acquired using NSP funds shall be appraised in conformity with the appraisal requirements of the Uniform Relocation Act (URA) at 49 CFR 24.103 by a licensed appraiser within sixty (60) days prior to an offer to purchase the property. Further guidance may be found at http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/docs/appraisal_guidance.doc. The market appraised value of properties with an anticipated value of $25,000 or less may be established based on a review of available data and shall be made by a person knowledgeable of and with experience in property valuation that ADFA determines is qualified to make the valuation.

NSP requires that properties acquired using program funding be purchased **at a discount of at least 1% from the current market appraised value of the home or property**. ADFA will require documentation to ensure the discount requirement is met including the address, appraised value, purchase offer amount and discount amount for each property. The discount value calculation may take into account the likely carrying costs of the mortgagee if it were to NOT sell the property to the applicant. Carrying costs may include: taxes, insurance, maintenance, marketing, overhead and interest.

No acquisition of single-family dwellings will be allowed for property in excess of Federal Housing Administration (FHA) limits, currently set at $271,050.

Voluntary Transactions and Tenants

ALL NSP-assisted property acquisitions must be voluntary acquisitions. Taking of property through eminent domain proceedings is NOT allowed. The Uniform Relocation Act requires that notices are provided to property owners even those considered to be voluntary transactions. The notices can be found at: http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm.

URA and Section 104(d) and 5305(a)(11) of Title I of the Housing and Community Development Act of 1974, as amended, and the implementing regulations at 24 CFR Part 570.496(a) (the Barney Frank Amendment) govern the permanent displacement as well as temporary relocation of tenants in properties funded by NSP. For more information, refer to http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm. In addition, ARRA includes additional provisions protecting the rights of property owners and "bona fide" tenants. Refer to Section P below for more information.

Acquisition of a Property for Another Party

ADFA may not provide NSP funds to another party to finance an acquisition of tax foreclosed (or any other) properties from itself, other than to pay necessary and reasonable costs related to the appraisal and transfer of title. If NSP funds are used to pay such costs when the property owned by ADFA is conveyed to a subrecipient, homebuyer, developer, or other jurisdiction, the property is NSP-assisted and subject to all program requirements, such as requirements for NSP-eligible use and benefit to income-qualified persons.

Resale of Property to Homebuyers

Each awardee of NSP funds must maintain sufficient documentation on the acquisition and sale of each property to enable ADFA and HUD to determine compliance with the requirement to sell each property to homebuyers at an amount equal to or less than the cost to acquire and redevelop the property (not including holding costs).

Purchase of FHA-Foreclosed Properties

Per NSP regulations, HUD strongly urges every community to consider and include FHA-foreclosed properties in their NSP programs. The nature and location of many FHA-foreclosed properties make them compatible with the eligible uses of NSP funds, the geographic areas of greatest need, and the income eligibility thresholds and limits.

P. Tenant Rights and Protections

The following requirements apply to any foreclosed upon dwelling or residential real property that was acquired by the initial successor in interest pursuant to the foreclosure after February 17, 2009 and was occupied by a *bona fide* tenant at the time of foreclosure.

- The initial successor in interest in a foreclosed upon dwelling or residential real property shall provide a notice to vacate to any *bona fide* tenant at least 90 days before the effective date of such notice. The initial successor in interest shall assume such interest subject to the rights of any *bona fide* tenant, as of the date of such notice of foreclosure: (i) under any *bona fide* lease entered into before the notice of foreclosure to occupy the premises until the end of the remaining term of the lease, except that a successor in interest may terminate a lease effective on the date of sale of the unit to a purchaser who will occupy the unit as a primary residence, subject to the receipt by the tenant of the 90-day notice under this paragraph; or (ii) without a lease or with a lease terminable at will under State law, subject to the receipt by the tenant of the 90-day notice under this paragraph, except that nothing in this section shall affect the requirements for termination of any Federal- or State-subsidized tenancy or of any State or local law that provides longer time periods or other additional protections for tenants.
- In the case of any qualified foreclosed housing in which a recipient of assistance under Section 8 of the United States Housing Act of 1937 (42 U.S.C 1437f) (the "Section 8 Program") resides at the time of foreclosure, the initial successor in interest shall be subject to the lease and to the housing assistance payments contract for the occupied unit.
- Vacating the property prior to sale shall not constitute good cause for termination of the tenancy unless the property is unmarketable while occupied or unless the owner or subsequent purchaser desires the unit for personal or family use.
- If a public housing agency is unable to make payments under the contract to the immediate successor in interest after foreclosure, due to (A) an action or inaction by the successor in interest, including the rejection of payments or the failure of the successor to maintain the unit in compliance with the Section 8 Program or (B) an inability to identify the successor, the agency may use funds that would have been used to pay the rental amount on behalf of the family—(1) to pay for utilities that are the responsibility of the owner under the lease or applicable law, after taking reasonable steps to notify the owner that it intends to make payments to a utility provider in lieu of payments to the owner, except prior notification shall not be required in any case in which the unit will be or has been rendered uninhabitable due to the termination or threat of termination of service, in which case the public housing agency shall notify the owner within a reasonable time after making such payment; or (2) for the family's reasonable moving costs, including security deposit costs.

A lease or tenancy shall be considered *bona fide* only if: (i) the mortgagor under the contract is not the tenant; (ii) the lease or tenancy was the result of an arms length transaction; and (iii) the lease or tenancy requires the receipt of rent that is not substantially less than fair market rent for the property.

ADFA will maintain documentation of its efforts to ensure that the initial successor in interest in a foreclosed upon dwelling or residential real property has complied with the requirements under section K.2.a. and K.2.b. If ADFA determines that the initial successor in interest in such property failed to comply with such requirements, it may not use NSP funds to finance the acquisition of such property unless it assumes the obligations of the initial successor in interest specified in section K.2.a. and K.2.b. If ADFA elects to assume such obligations, it must provide the relocation assistance required pursuant to 24 CFR 570.606 to tenants displaced as a result of an activity assisted with NSP funds and maintain records in sufficient detail to demonstrate compliance with the provisions of that section.

The recipient of any grant or loan made from NSP funds may not refuse to lease a dwelling unit in housing with such loan or grant to a participant under the Section 8 Program because of the status of the prospective tenant as such a participant.

This section shall not preempt any Federal, State or local law that provides more protections for tenants.

Q. Energy Efficiency

To the extent feasible, ADFA will strongly encourage grantees to incorporate modern, green building, and energy-efficiency improvements in all NSP activities to provide for long-term affordability and increased sustainability and attractiveness of housing and neighborhoods.

R. Other Federal Requirements

NSP awardees and funded projects must adhere to all applicable other Federal requirements as outlined in 24 CFR part 570, HERA, ARRA, and NSP guidance from HUD. Key requirements are summarized below.

Equal Opportunity and Fair Housing

The state shall not exclude any organization or individual from participation under any program funded in whole or in part by NSP funds on the grounds of age, disability, race, creed, color, national origin, familial status, religion, or sex.

The following federal requirements as set forth in 24 CFR 5.105(a), Nondiscrimination and Equal Opportunity, are applicable to NSP projects:

Fair Housing Act	24 CFR 100
Executive Order 11063, as amended (Equal Opportunity in Housing)	24 CFR 107
Title VI of the Civil Rights Act of 1964 (Nondiscrimination in Federal Programs)	24 CFR 1
Age Discrimination Act of 1975	24 CFR 146
Section 504 of the Rehabilitation Act of 1973	24 CFR 8
Executive Order 11246, as amended (Equal Employment Opportunity Programs)	41 CFR 60
Section 3 of the Housing and Urban Development Act of 1968[1]	24 CFR 135
Executive Order 11625, as amended (Minority Business Enterprises)	
Executive Order 12432, as amended (Minority Business Enterprises)	
Executive Order 12138, as amended (Women's Business Enterprise)[2]	

In addition to the above requirements, all NSP participants must ensure that their Equal Opportunity and Fair Housing policies related to activities funded by NSP are consistent with the current Consolidated Plan adopted by their jurisdiction or the State Consolidated Plan.

Affirmative Marketing

Any entity applying for NSP funds must adopt affirmative marketing procedures and requirements for all NSP-assisted housing and submit the affirmative marketing plan with the NSP application. The affirmative marketing plan and requirements for NSP-assisted housing must be approved by ADFA prior to any NSP funds being committed to a development. Affirmative marketing requirements and procedures must include ALL of the following:

- Methods for informing the public, owners, and potential tenants about fair housing laws and the policies of the local program
- A description of what owners and/or the program administrator will do to affirmatively market housing assisted with NSP funds
- A description of what owners and/or the program administrator (e.g.., community development director) will do to inform persons not likely to apply for housing without special outreach

[1] Section 3 requires that the employment and other economic opportunities generated by federal financial assistance for housing and community development programs shall, to the greatest extent feasible, be directed toward low and very low income persons, particularly those who are recipients of government assistance for housing.

[2] Executive Orders 11625, 12432, and 12138 require that participating jurisdictions and local programs must prescribe procedures acceptable to HUD for a minority outreach program to ensure the inclusion, to the greatest extent possible, of minorities and women entities owned by minorities and women in all contracts. Local programs must also develop acceptable policies and procedures if their application is approved by ADFA.

- Maintenance of records to document actions taken to affirmatively market NSP-assisted units and to assess marketing effectiveness
- A description of how efforts will be assessed and what corrective actions will be taken when requirements are not met.

Environmental Review

In implementing NSP, the environmental effects of each activity must be assessed in accordance with the provisions of the National Environment Policy Act of 1969 and HUD's regulations at 24 CFR Part 58.

ADFA, as the NSP grantee, and the units of local government funded by ADFA will be responsible for carrying out environmental reviews for approved projects/programs. ADFA will approve the release of funds (ROF) for local governments and must request the release of funds (RROF) from HUD for any developments carried out by other types of entities. NSP funds are approved as a conditional commitment until the environmental review process has been completed, with the option to proceed, modify or cancel the project based upon the results of the review. ADFA reserves the right to require a Phase I Environmental Study as part of the environmental review process.

Applicants/awardees of NSP funds may NOT execute contracts for purchase of properties that may be funded with NSP until receiving written authorization from ADFA to do so.

Flood Plains/Wetlands

NSP funds may generally not be invested in housing located in an area identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards. ADFA discourages developments located in special flood hazard areas but, in some instances and with written permission from ADFA, houses located in a flood plain may be assisted. It is the responsibility of the applicant to evaluate any remedies to remove any properties from the flood plain and ensure the feasibility of the proposed plan. ADFA is willing to consider the proposed remedy and must approve the proposal in writing prior to approval of any NSP allocation. The community must be currently participating in the National Flood Insurance Program, and flood insurance must be obtained and maintained on the NSP-assisted property for the full period of affordability.

Lead-Based Paint Requirements

The Lead-Based Paint Regulations described in 24 CFR Part 35 require that lead hazard evaluation and reduction activities be carried out for all developments constructed before 1978 and receiving NSP assistance. Applications for rehabilitation funds for existing buildings constructed prior to 1978 must include a lead hazard evaluation, by appropriate lead-certified personnel. The application must also include detailed lead hazard reduction plan, in accordance with the regulations, and separately identify within the rehabilitation budget, the costs associated with reduction of lead hazards in accordance with the regulation and guidelines. All NSP fund allocations will be contingent upon the applicant agreeing to complete lead hazard reduction, evidenced by a clearance report performed by appropriate lead-certified personnel. In a development where NSP funds will be used on only a portion of the units, the lead-based paint requirements apply to ALL units and common areas in the development.

Labor Standards

Davis-Bacon wage compliance and other federal laws and regulations pertaining to labor standards apply to all construction and rehabilitation contracts that are financed in whole or in part with NSP funds for residential property consisting of eight (8) or more NSP-assisted units.

Davis-Bacon and related laws include the following:

- Davis-Bacon and Related Acts (40 USC 276a-276a-7)
- Contract Work Hours and Safety Standards Act (40 USC 327-333)
- Copeland (Anti-Kickback) Act (18 USC 874; 40 USC 276c)
- Fair Labor Standards Act of 1938, as amended (29 USC 201, et seq.)

The construction bids and contract for any NSP-assisted activity must contain the applicable wage provisions and labor standards. Davis-Bacon does not apply to projects using solely volunteer labor or to sweat equity projects. ADFA will monitor all developments subject to Davis-Bacon requirements to ensure compliance with all applicable regulations.

Debarment and Suspension

ADFA will require participants in lower-tier transactions covered by 24 CFR 24 to certify that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any entity from a federally funded transaction. Any participant that remains on a debarred or suspended condition shall be prohibited from participation in the ADFA NSP as long as they are classified in this manner.

Note: ADFA reserves the right to require criminal background checks for all program participants as part of the application process. Please refer to ADFA's agency policy and requirements for information regarding this item (See ADFA's QAP and/or HOME Policy Manual).

Relocation

NSP funds are intended ONLY for use in purchasing/improving properties that have been abandoned and foreclosed. As such, most properties are expected to be vacant at the time of appraisal and offer to acquire. Should there be residents in any foreclosed property considered for NSP assistance, potential awardees must follow the residential anti-displacement and relocation plans in effect and outlined in the State's approved Consolidated Plan and all applicable Uniform Relocation Assistance and Real Property Acquisition Act (URA) of 1970 provisions. Applicable regulations can be found at 49 CFR Part 24.

Audit

ADFA requires that local government and non-profit recipients expending more than $500,000 in Federal awards in a given fiscal year have an audit conducted in accordance with Generally Accepted Accounting Principals (GAAP) and the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." An audit of NSP funds must be submitted to ADFA annually on or before June 30 each year.

S. Procurement

Local governments and subrecipient entities are required to adhere to all applicable procurement requirements in the selection and award of contracts for goods and services. Therefore, all solicitation of bids for goods and services to be paid with NSP funds must be conducted openly and competitively in accordance with Arkansas State Procurement guidelines, as applicable.

Developers are not subject to procurement requirements, but costs must be considered reasonable to be eligible under the program.

T. Contractor Requirements

All general contractors working on all NSP-funded developments must have an active license issued by the Arkansas Contractor's Licensing Board (the "State Licensing Board") as applicable and meet all requirements of contractors in the state of Arkansas, including securing Builder's Risk insurance. Contractors may not "share" a license. That is, ADFA will not allow one contractor to work from another contractor's license.

All ADFA NSP-funded projects must have a general contractor that is properly licensed by the Arkansas State Contractor's Licensing Board. Any questions regarding licensing issues and a list of licensed contractors may be directed to the State Licensing Board at the following address:

Arkansas Contractor's Licensing Board 4100 Richards Road North Little Rock, AR 72117 (501)372-4661

Any contractor or subcontractor who has been debarred by any entity or had a contractor license suspended by any entity within the previous twelve (12) months will be prohibited from participating in the NSP. All general contractors working on all NSP-funded developments must obtain one of the following: (1) a payment and performance bond; or (2) an Irrevocable Letter of Credit in the amount of the construction contract.

Note: Construction contracts for rehabilitation projects $25,000 or under will not be required to obtain a payment and performance bond or an irrevocable letter of credit.

U. Inspections

Inspections are required with all activities that are funded through the NSP. ADFA currently has inspectors that will be available as needed. **Applicants must notify ADFA a minimum of 48 hours in advance to schedule inspections.**

There are currently four (4) required inspections that are identified below:

Stage 1	Stage 2	Stage 3	Stage 4
Excavation	Plumbing top-out	Flooring systems	Final Inspection
Metals	Electrical rough-in	Painting	
Termite treatment	Framing	Doors	
Rough-in plumbing	Roof	Cabinets	
Earth work	Interior wall systems	HVAC	
Water proofing (vapor barrier)	Exterior wall systems	Electrical top-out	
Footing	Ventilation	Special construction (elevators, etc.)	
Slab	Insulation	Appliances	

Rental housing development inspections may be scheduled more frequently, as warranted. The ADFA inspector must attend any pre-construction meetings for NSP-funded developments. For rehabilitation projects, when a project is ready for a draw on funds, the property must be inspected and/or approved to verify that the work has been satisfactorily completed. **ADFA will only make payments on work that has been** satisfactorily **completed, inspected and approved by an ADFA inspector.**

Applicants may fax or mail their payment request, with all of the required documentation, to ADFA using the following contact information:

Arkansas Development Finance Authority
Attn: NSP Program Department
P.O. Box 8023
Little Rock, AR 72203-8023
FAX (501) 682-5859

ADFA staff will coordinate with recipients of NSP funds and inspectors to schedule all inspections.

V. Change Orders

ADFA recognizes that changes in a development occur from time to time. It is important that NSP participants submit change orders on the proper ADFA form. All change orders **must be** approved by the ADFA staff prior to initiating work. No payment of NSP funds will be made on change orders that have not been approved by ADFA. Any changes to the original amounts of NSP assistance must be reflected by an Amended and Restated Mortgage and Promissory Note. Each Single-Family NSP Agreement will include provisions for possible funding of change orders on a limited basis.

W. Construction Contingency

ADFA allows up to ten percent (10%) of the NSP allocation for construction contingencies. A rehabilitation, reconstruction, or new construction activity, including contingencies, may not exceed the ADFA established per unit limits for the NSP.

X. Closing of Transactions

ADFA will select and/or approve a closing entity to provide closing services for all NSP transactions using ADFA-approved documents. The services will be available and required in the county where the development is located. NSP staff will provide closing instructions for all NSP-funded transactions to the closing entity. ADFA will be responsible for payment of costs associated with closing the NSP portion of the transaction on both homebuyer and rental activities.

Y. Reporting Requirements

ADFA is required to submit quarterly performance reports to HUD no later than thirty (30) days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award (i.e., August 1, 2009) and continuing until all funds are expended and the program is closed out. Accordingly, all NSP awardees will be required to submit performance information to ADFA by established deadlines conducive for ADFA to meet its reporting requirements.

Performance information will include, but not be limited to, the following:

- Project name
- Project activity
- Project location
- NSP Eligible use
- CDBG national objective
- Budgeted funds
- Expended funds
- Funding source
- Total amount of any non-NSP funds
- Numbers of properties and housing units assisted
- Beginning and ending dates of activities
- Numbers of low, moderate, and middle-income persons or households benefiting
- Demographic data for households benefiting

In addition to this quarterly performance reporting, ADFA will report monthly on its NSP obligations and expenditures beginning 30 days after the end of the 15th month following receipt of funds, and continuing until reported total obligations are equal to or greater than the total NSP grant. After HUD has accepted a report from ADFA showing such obligation of funds, the monthly reporting requirement will end and quarterly reports will continue until all NSP funds (including program income) have been expended and those expenditures are included in a report to HUD.

To collect these data elements and to meet its reporting requirements, ADFA will use HUD's online DRGR system to report on its NSP funds to HUD. When it submits the report to HUD, ADFA will post a copy of the NSP DRGR report on a website for the public to review.

Reporting requirements are subject to change and additional specificity based on further guidance from HUD.

Z. Program Income

All entities, government or private (as defined at 24 CFR 570.500(c)), that receive program income (as defined at 24 CFR 570.500(a)) directly generated by activities carried out with NSP funds must **immediately remit any and all program income from NSP-assisted activities directly to ADFA.** ADFA will disburse and use program income prior to requesting additional cash withdrawals from the U.S. Treasury.

AA. Monitoring

During the period of affordability, ADFA will perform on-site compliance and monitoring inspections of all single-family and multi-family developments utilizing NSP funds to determine compliance with the applicable regulations and requirements outlined in this manual and NSP regulations.

IV. The NSP Rental Housing Program

Recipients utilizing funds in the NSP Rental Housing Program must closely adhere to all NSP regulations, as well as to ADFA's program-specific guidelines and adopted policies. Notwithstanding these requirements, program participants may structure their development and application for NSP Program funds to meet the specific rental needs of their community.

A. Eligible Applicants

ADFA will accept applications for projects up to the September 1, 2009 application deadline. Multiple NSP applications may be submitted for funding. ADFA will determine in its sole and absolute discretion if the applicant has the necessary capacity to complete any additional NSP applications submitted. Additional NSP applications submitted by eligible applicants will be approved only if the applicant exhibits the capacity to successfully complete all approved projects. ADFA will accept applications for rentals at a minimum of five (5) units, from entitlement communities, other units of local government, nonprofit organizations, or for-profit entities.

Eligible applicants may receive technical assistance by attending an information/training session prior to submitting an application. Sessions will address NSP Program and ADFA guidelines as well as application procedures. Applicant eligibility will be based on the designated responsible entity submitting the application. An eligible designated responsible entity is the entity responsible for project development, but may include all of its related affiliated entities.

B. Amount of NSP Funding Per Applicant

Each eligible applicant must request at least one hundred thousand dollars ($100,000). The maximum amount that can be requested for a developer's fee is ten percent (10%) of the final allocation amount. The allocation is generally meant to be used as gap financing and is not intended to fund an entire development.

C. Eligible Activities and Projects

ADFA will accept applications in the NSP Rental Housing Program in the following eligible activity categories:

1. **Acquisition** – Acquisition of abandoned and foreclosed rental properties for the purposes of providing housing to NSP income eligible tenants.
2. **Rehabilitation** – Rehabilitation of abandoned and foreclosed rental properties for the purposes of providing housing to NSP income eligible tenants. This activity would be combined with acquisition of abandoned and foreclosed properties.
3. **Demolition of Blighted Structures** – Demolition of blighted structures to be replaced by units for rent by NSP income eligible tenants. **This activity must be combined with acquisition of abandoned or foreclosed properties.**
4. **Reconstruction** – Reconstruction of abandoned and foreclosed structures for the purposes of providing housing to NSP income eligible tenants. This activity would be combined with acquisition of abandoned and foreclosed properties.

5. **New Construction** – New construction of rental properties for the purposes of providing housing to NSP income-eligible homebuyers. The property upon which the structures are constructed must be either foreclosed or vacant, as defined by NSP.

Each application must include a minimum of five (5) units.

All projects must aim to re-inhabit abandoned or foreclosed properties through their acquisition, rehabilitation, reconstruction, new construction, or some combination thereof. Eligible projects include multiple buildings on a single site as well as single or multiple units on scattered sites. Units may be on scattered sites but must be within the same jurisdiction.

ADFA will require all proposals to include no less than 25 percent of NSP funding requested to be designated for households at or below 50 percent of area median income. NSP funds may be used for a mixed-income development provided that a pro rata of NSP-eligible units are occupied by households meeting the income limits of the NSP. Common area costs must be prorated based upon the number of NSP-assisted units and non-NSP-assisted units.

A building that is designed, in part, for other than residential housing may qualify as affordable housing under the NSP as long as NSP funds are used for the residential portion and those units meet the rent and income limitations of the NSP (see F. Rent Limits and Project Affordability for more information.)

D. Eligible Costs

NSP Program funds may be used for certain development costs as dictated by 24 CFR Part 570 and outlined below:

1. **Hard Costs** – Eligible hard costs are the actual cost of constructing or rehabilitating housing. These costs include the following:
    a. Construction, rehabilitation, or reconstruction of affordable housing units
    b. Site improvements (including utility connection costs, but <u>not</u> the costs to provide utilities to the site)
    c. Demolition (must be done in conjunction with a specific affordable housing project)
    d. Acquisition
2. **Soft Costs** –Eligible soft costs must be "usual, customary, reasonable, and necessary" and may include the following:
    a. Finance related costs, i.e., credit reports, title reports and updates, appraisal fees, surveys, origination fees and discount points, and construction interest
    b. Current market study (not more than six (6) months old)
    c. Project audit costs
    d. Professional services (architectural, engineering, and other services provided for a specific project; otherwise, the professional service costs may be considered to be administrative costs)
    e. Consultation fees (not associated with organizational startup) **DEVELOPERS CANNOT HIRE THEMSELVES AS CONSULTANTS ON ANY NSP-FUNDED PROJECT OTHER THAN ON A THIRD-PARTY BASIS.**

3. **Relocation Costs** – The cost of permanent or temporary relocation of tenants, as required by the URA.

4. **Bridge Loans** – Interim construction loans used to finance the NSP-assisted development with prior notification to ADFA.

Note: While ADFA does not have a predetermined, specific limit on cost per square foot, the developer should be aware that the per unit cost per square foot will be closely scrutinized for reasonableness, and an application for funding will be denied if costs are deemed unreasonable.

5. **Project Delivery Costs** – Any nonprofit entity or local government receiving a NSP allocation may include project delivery costs (in an amount not to exceed 10% of the final NSP allocation) in the development budget. Project delivery costs are eligible only for costs directly associated with the NSP-funded development. A certification of costs must be submitted with all requests for project delivery costs. **Participants must submit an itemized budget for project delivery costs as part of the initial application.**

Proper documentation is essential for the payment of project delivery cost fund requests. Project delivery costs must be supported by source documentation **maintained on file by the recipient** of NSP funds. Requests for payment of project delivery costs must be verified by the Certification of Costs (signed by the recipient) and not by the supporting documentation maintained by the recipient. Supporting documentation will be reviewed and verified by ADFA staff performing compliance and monitoring reviews.

Acceptable supportive documentation includes:

- A copy of a detailed bill highlighting the costs to be reimbursed to the NSP participant. The detailed bill should, at a minimum, include vendor identification, a description of the services received, the quantity (hours, units, etc.), and the price for services received. The detailed bill must be substantiated by a cancelled check, a copy of the bank statement or other proof of payment
- No handwritten invoices will be accepted.
- All invoices must have an authorized signature of the NSP participant's Executive Director, or his or her designee, approving the payment and verifying that the services were received and satisfactorily performed, the month the cost is being paid, dated, and cancelled to prevent the invoice from being paid twice.
- ADFA will reimburse salaries which are "reasonable and customary" for support personnel (e.g., clerical, temporary employee, etc.) of the NSP participant directly providing project delivery costs to the affordable housing being assisted at a rate commensurate with their regular hourly wages.
- A copy of any contracts for professional services, (e.g., consultants, architects, contractors, etc.), if applicable, must be provided in the initial application outlining the services to be rendered, the cost of the proposed services, and the proposed payment schedule or terms..
- Satisfactory documentation of fringe benefits being paid. Examples of fringe benefits include the following:
    - Vacation/Sick/Holiday/Compensatory Time
    - Pensions
    - Veteran's Benefits

- Group Insurance
- Life Insurance/Long-term Disability
- Accidental Death and Dismemberment Insurance
- Profit Sharing Plan
- Association/Union Dues

The use of prorated payment percentages is acceptable and must be outlined in the initial application as well as each billing statement submitted for reimbursement. The applicant must provide the sources of other funds used to pay project delivery costs, if any.

E. Forms of Financial Assistance

ADFA caps the maximum subsidy for rental projects at $132,000 per unit or $158,400 per unit for properties listed on the National Register of Historic Places.

NSP allocations for rental housing activities will be in the form of a loan at 0% interest amortized over the period of affordability. The minimum affordability period may be extended at the owner's election.

F. Rent Limits and Project Affordability

All NSP Program funds must benefit households with incomes no greater than 120% of the area median income, adjusted for family size. Rents in all NSP-assisted units must be set at "affordable rents," which are defined as follows:

- Low HOME Rent Limits: Tenant households with incomes < 50% of the AMI
- Tenant households with incomes between 50 and 60% of AMI: High HOME Rent Limits
- Tenant households with incomes between 60 – 120% of AMI: HUD Fair Market Rent Limits

These rent limits and area median incomes are recalculated on an annual basis by HUD.

All NSP-assisted projects must remain affordable to and occupied by LMMI households within the above listed rent limits for a period of time that varies in accordance with the level of NSP assistance. The table below provides the minimum period over which NSP-assisted units must remain affordable.

NSP Assistance Per Unit	Minimum Affordability Period
Under $15,000	5 Years
$15,000 - $40,000	10 Years
Over $40,000	15 Years
New Construction or Acquisition of Newly Constructed Rental Housing	20 Years

Rent, occupancy, and affordability requirements will be enforced with AFDA-approved covenants, mortgages, or deed restrictions running with the property. Specifically, rental property owners/managers will be required to document that the required percentage of units are occupied by LMMI households over the period of affordability. Income must be determined at a minimum, when a NSP-funded unit is occupied by a new tenant household (i.e., at unit turnover).

Where NSP Program funds are used in conjunction with HOME Investment Partnerships ("HOME"), Low Income Housing Tax Credits ("LIHTC"), United States Department of Agriculture ("USDA") Rural Development funds or other financing programs, the more stringent project and occupancy regulations will apply.

G. Universal Design Standards

The following building design criteria must be included in all construction for all NSP-funded rental projects, in accordance with the Arkansas Department of Human Services' *Arkansas Usability Standards in Housing: Guidance Manual for Constructing Inclusive Functional Dwellings* (AUSH):

1. Seven percent (7%) of all residential rental units within the development must comply with the Level 5, "All-Inclusive" usability criteria as set forth in the AUSH. The AUSH is available on the internet at the following website address: www.studioaid.org. Under the "Design" link, click on "standards."
2. Each unit that is required to meet the Level 5, "All-Inclusive" usability criteria set forth in the AUSH must have at least one bathroom with an "accessible roll-in" shower facility with minimum dimensions of 60"x34," or 42" x 42" if a corner shower facility.
3. All ground level residential rental units in any building and all residential units with elevator access in any building in the development must comply with the Level I, "Visitable" usability criteria as set forth in the AUSH.
4. All exterior and interior doors intended for passage must provide for a minimum clear opening of 34".
5. All residential units in the development will have "closed-fist" operability throughout the unit (e.g., single handle door levers vs door knobs, push stick lighting and environmental controls, cabinet doors can be opened with a closed first, single handle faucets in bathrooms and kitchen).
6. All environmental controls must provide visual and tactile cues. For lighting, a "rocker" type switch is sufficient. For thermostats, a programmable and digital with raised buttons is required.
7. All primary entries, not in a breezeway, must have a minimum roof covering of 5'x 5'.
8. All primary entries must have entry pad measuring at least 5'x 5'.
9. All sidewalks must be at least 5' wide.

H. Methods of Repayment

The standard loan terms and conditions for repayment of Rental Housing Program loans are to be evidenced by fully executed promissory notes. Promissory notes will be payable at a zero percent (0%) interest rate for a term coinciding with the NSP affordability period. Monthly or annual payments will become due and payable not later than one (1) year from the anticipated placed in service date shown on Schedule of Activities, included as Attachment B of the NSP Agreement.

I. Leveraging Requirements for Rental Development

Applications will receive additional points for leveraging NSP funds with other sources (i.e., private financing, HOME, USDA, etc.).

V. The NSP Homebuyer Housing Program

The Homeownership Housing Program is designed to provide NSP funds for the acquisition and rehabilitation or acquisition and new construction of single-family properties for sale to eligible LMMI households to stabilize neighborhoods and promote homeownership.

A. Eligible Applicants

ADFA will accept applications for projects up to the September 1, 2009 application deadline. ADFA will loan NSP funds to the approved eligible applicant as outlined in the NSP Program Agreement. The homebuyer will be required to execute a Promissory Note, Mortgage, and Deed Restriction through an ADFA-approved closing entity.

B. Amount of NSP Funding Per Applicant

Each eligible applicant must request at least one hundred thousand dollars ($100,000). Additional applications may be submitted if currently funded project expenditures of NSP funds are being expended in a timely manner and the applicant demonstrates the capacity to successfully complete multiple projects. The approval of multiple and/or additional NSP applications will be contingent upon availability of funds, quality of submitted application, and in ADFA's sole and absolute discretion.

C. Eligible Activities

NSP Program funds can be used to fund the following homeownership activities:

1. **Acquisition** – Acquisition of abandoned and foreclosed residential properties for the purposes of providing housing to NSP income eligible homebuyers.
2. **Rehabilitation** – Rehabilitation of abandoned and foreclosed single-family structures for the purposes of providing housing to NSP income eligible homebuyers. This activity would be combined with acquisition of abandoned and foreclosed properties.
3. **Demolition of Blighted Structures** – Demolition of blighted structures to be replaced by units for purchase by NSP income eligible homebuyers. **This activity must be combined with acquisition of abandoned or foreclosed properties.**
4. **Reconstruction** – Reconstruction of abandoned and foreclosed structures for the purposes of providing housing to NSP income eligible homebuyers. Any single-family structure demolished per #3 above, not economically feasible to rehabilitate or has projected per unit rehabilitation costs equal to or greater than twenty-five thousand dollars ($25,000), will be considered for reconstruction. This activity would be combined with acquisition of abandoned and foreclosed properties.
5. **New Construction** – New construction of single family structures for the purposes of providing housing to NSP income eligible homebuyers. The property upon which the structures are constructed must be either foreclosed or vacant, as defined by NSP.

Each application must include a minimum of five (5) units.

The properties rehabilitated or constructed must be made available for sale to NSP income-eligible LMMI buyer households. Through ADFA's network of approved lending institutions, the funds can also be combined with permanent financing to assist eligible homebuyers.

Applications for single-family, reconstruction, new construction or acquisition/rehabilitation for sale must provide documentation demonstrating a demand (i.e., marketability of the proposed NSP-assisted housing) for the requested activity. Acceptable documentation must include at least one of the following: (1) a market study completed by an ADFA-approved market analyst; (2) copies of sales contracts for pre-sold units; or (3) copies of mortgage pre-approval letters from a list of potential qualified homebuyers.

Each homebuyer household is required to receive at least eight (8) hours of counseling from a HUD-approved counseling agency. ADFA anticipates a small share of funds to be directed towards providing housing counseling in an amount not to exceed two hundred dollars ($200) per household. ADFA maintains a list of approved counseling agencies that is available at: www.arkansas.gov/adfa.

If for any reason, an applicant/awardee is unable to meet the requirement to provide at least eight (8) hours of counseling from a HUD-approved counseling agency for a good cause (e.g., there are no HUD-approved housing counseling agencies within the jurisdiction, or there are no HUD-approved housing counseling agencies within the jurisdiction that engage in homebuyer counseling), a request for an exception to this requirement may be submitted to ADFA, which will submit the request to the HUD Field Office for its review.

NSP funding cannot be used to fund projects that include the following:

- Properties that are not foreclosed or abandoned;
- Properties that will not be owner-occupied;
- Properties that will not be sold to eligible LMMI households;
- Rental or commercial properties; and
- Projects where contractors do not have a state contractor's license or cannot obtain a builder's risk insurance policy and where contractors do not have a payment and performance bond for the full amount of the construction contract.

D. Eligible Properties

The geographic location of properties included in the application will be reviewed to ensure the applying entity has the necessary capacity to perform the proposed activities within the designated geographic location. Eligible properties must be foreclosed or abandoned as defined by ADFA in the Glossary of this manual and must result in single family residential units for sale to LMMI buyer households.

As described in Section III. General Requirements of NSP, ADFA requires that the purchase of all properties be at least one percent (1%) below the appraised value. All properties acquired using NSP funds shall be appraised in conformity with the appraisal requirements previously outlined, including the requirement that properties valued at $25,000 or more must be appraised in accordance with the Uniform Relocation Act (URA) at 49 CFR 24.103 by a licensed appraiser within sixty (60) days prior to a final offer to purchase the property.

Eligible properties must be modest in value. Therefore, no acquisition of single-family dwellings will be allowed for property in excess of Federal Housing Administration (FHA) limits, currently set at $271,050.

E. Eligible Homebuyers

An eligible owner must have a household income at or below the middle-income limits as defined by HUD. A middle-income owner is defined as an owner whose annual gross household income does not exceed one hundred twenty percent (120%) of the median income for the area, adjusted for family size. Without exception, NSP funds cannot be used on projects where the income of the prospective homebuyer household is greater than one hundred and twenty percent (120%) of the area median income.

HUD's "Technical Guide for Determining Income and Allowances for the HOME Program" published in January 2005 guide can be found at the following link: http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/1780.cfm. Income Verification forms will be provided by ADFA. Participants will use the Technical Guide and these forms for calculating and verifying incomes. Supporting documentation, such as W-2s, tax forms, and bank statements must be collected, reviewed, and kept in local records to demonstrate that the household's income was within the prescribed limit.

As stated previously, each homebuyer household is required to receive at least eight (8) hours of counseling from a HUD-approved counseling agency. Documentation that the assisted buyers received such counseling must be maintained by the grantee.

The homebuyer must provide proof of hazard insurance in an amount sufficient to cover replacement of the structure. The insurance policy must list ADFA on the policy as the additional insured/mortgagee.

F. Forms of Financial Assistance

NSP allocations to units of local government or other entities for single-family development activities will be in the form of a loan at 0% interest.

Assistance to homebuyers will be provided as a forgivable loan at 0% interest, contingent upon NSP eligible homebuyer continuing to own, occupy as principal residence, and maintain the NSP-assisted home for the full applicable affordability period. ADFA will provide the legal documents that must be recorded for each property to enforce the loan/affordability period/recapture provisions.

The following requirements apply to NSP assistance to homebuyers:

- Buyers must obtain a first mortgage and not exceed front and back end ratios of 31% and 41%, respectively.
- ADFA will cap the amount of direct NSP assistance to the purchaser to up to 20% of the purchase price not to exceed $25,000 excluding an interest rate buy down (up to .250 basis points).

G. Eligible Costs

NSP Program funds may be used only for eligible costs as defined at 24 CFR Part 570. NSP funds may be used to cover soft and hard costs associated with a project. These costs include the following:

1. **Hard costs** – Eligible hard costs are the actual costs associated with the rehabilitation of the housing units and include the following:
    a. Acquisition

b. Demolition

c. Site improvements

d. Construction, rehabilitation, or reconstruction

The cost of repairs must be reasonable compared to the value of the house (i.e., the level of rehabilitation is intended to allow continued owner occupation for at least the affordability period as regulated by NSP). The rehabilitation must be financially and structurally feasible.

NOTE: Rehabilitation/construction costs of single family homes is limited to $132,000.

2. **Soft costs** – Soft costs must be "usual, customary, reasonable and necessary" and may include the following:

    a. Finance related costs, i.e., credit reports, title reports and updates, appraisal fees, surveys, origination fees and discount points, and construction interest

    b. Housing counseling (up to $200 per household) contingent upon buyer purchasing an NSP-assisted property.

    c. Project audit costs

    d. Affirmative marketing and fair housing costs

    e. Professional services (architectural, engineering, and other services provided for a specific project; otherwise, the professional service costs may be considered to be administrative costs)

    f. Hazard insurance

3. **Relocation Costs** – The cost of permanent or temporary relocation of tenants, as required by the URA.

4. **Project Delivery Costs** – Project delivery costs include staff time, overhead, fringe benefits, consultant fees, etc., which can be directly attributed to a specific project. Any entity receiving a NSP fund allocation may include in its application an amount for project delivery costs (in an amount not to exceed 10% of the final NSP allocation) in the development budget. For instance, if a recipient receives a three hundred thousand dollar ($300,000) NSP allocation, it may request an additional thirty thousand dollars ($30,000) for project delivery costs. Project delivery costs are eligible only for costs directly associated with the NSP-funded development or activity. **Applicants must submit an itemized budget for project delivery costs as part of the initial application.** The approved applicant must submit a certification of the project delivery costs incurred that is signed by the appropriate approving official of the participating entity with each request for project delivery funds. Project delivery costs must be allocated on a pro rata basis among the NSP-assisted units. On single-family projects (i.e., new construction or rehabilitation), ADFA will withhold a ten percent (10%) administrative retainage throughout the project. Single-family projects exceeding eighteen months (18) for completion will be paid no more than 90% of administrative fees.

Proper documentation is essential for the payment of project delivery cost fund requests. Project delivery costs must be supported by source documentation **maintained on file by the recipient** of NSP funds. Requests for payment of project delivery costs must be verified by the Certification of Costs (signed by the recipient) and not by the supporting documentation maintained by the recipient. Supporting documentation will be reviewed and verified by ADFA staff performing compliance and monitoring reviews.

Acceptable supportive documentation includes:

- A copy of a detailed bill highlighting the costs to be reimbursed to the NSP participant. The detailed bill should, at a minimum, include vendor identification, a description of the services received, the quantity (hours, units, etc.), and the price for services received. The detailed bill must be substantiated by a cancelled check, a copy of the bank statement or other proof of payment
- No handwritten invoices will be accepted.
- All invoices must have an authorized signature of the NSP participant's Executive Director, or his or her designee, approving the payment and verifying that the services were received and satisfactorily performed, the month the cost is being paid, dated, and cancelled to prevent the invoice from being paid twice.
- ADFA will reimburse salaries which are "reasonable and customary" for support personnel (e.g., clerical, temporary employee, etc.) of the NSP participant directly providing project delivery costs to the affordable housing being assisted at a rate commensurate with their regular hourly wages.
- A copy of any contracts for professional services (e.g., consultants, architects, contractors, etc.), if applicable, must be provided in the initial application outlining the services to be rendered, the cost of the proposed services, and the proposed payment schedule or terms.

The use of prorated payment percentages is acceptable and must be outlined in the initial application as well as each billing statement submitted for reimbursement. The applicant must provide the sources of other funds used to pay project delivery costs, if any.

H. Sale of Units to Homebuyers

NSP requires that properties acquired or acquired and rehabilitated/constructed with NSP funding be sold to eligible LMMI homebuyers at an amount equal to or less than the cost to acquire and redevelop the property by the funding recipient. This means that properties may not be sold at a profit. The cost may not include any holding costs incurred by the awardee. ADFA will enforce and monitor these requirements through its closing documentation procedures and additional monitoring.

The homebuyer must obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages (see, Statement on Subprime Mortgage Lending issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Department of the Treasury, and National Credit Union Administration, available at http://www.fdic.gov/regulations/laws/rules/5000-5160.html). Awardees must document compliance with this requirement for each homebuyer.

I. Affordability Period and Recapture Provisions

The minimum applicable affordability periods for single-family loans shall be as follows:

Total Loan Amount	Number of Years
$1,000 - $15,000	5
$15,000 - $40,000	10
Over $40,000	15

Homeownership assistance is provided as a forgivable loan at 0% interest, contingent upon eligible homebuyer continuing to own, occupy as principal residence, and maintain the NSP-assisted home for the full applicable affordability period. If the buyer chooses to sell the home, move, or fails to maintain the NSP-assisted home, the buyer shall repay to ADFA the pro rata amount of the NSP direct assistance that enabled the buyer to purchase the home for the unexpired term of affordability. In the event the property is sold or otherwise transferred to any purchaser during the affordability period, ADFA will recapture that amount of NSP funds unforgiven during the affordability period from the net proceeds from the sale of the property. If net proceeds are not sufficient to recapture the full NSP investment or reduced amount per lien documents, ADFA will share the net proceeds. The three (3) eligible types of homeownership assistance are 1) downpayment and closing cost assistance, 2) mortgage reduction assistance, and 3) interest rate buy-down of the eligible homebuyer's first mortgage to a rate 250 basis points below current market (non-subprime) interest rates.

In all cases where NSP assistance is provided, a note will be executed and mortgage will be recorded in favor of ADFA. **ONLY ADFA-APPROVED LIEN DOCUMENTS WILL BE USED.** NSP assistance may be in a junior position to private lender financing as long as the combined loan-to-value does not exceed one hundred percent (100%). Recipients and subrecipients must apply all rules consistently and fairly, regardless of the form of assistance.

All mortgage payments shall be paid by the homebuyer on a monthly basis to ADFA at the following address:

Arkansas Development Finance Authority c/o Accounting Department P. O. Box 8052 Little Rock, AR 72201

ADFA will recapture that portion of NSP investment unforgiven by the elapsed affordability period or recapture the maximum net proceeds from sale of property (whether recapture is effected through foreclosure or no foreclosure action). Net proceeds recovered will be used as follows: (1) reimburse the NSP (approved activity) for the outstanding balance of NSP funds not forgiven during the applicable affordability period at the time of recapture, and/or (2) reimburse the NSP (administration) for "holding costs" or other costs associated with the recapture action (e.g., legal fees, insurance, taxes, realtor fees, appraisal/BPO costs, etc.)

If net proceeds recaptured are less than the outstanding balance of NSP funds invested in the property (for all approved activities and holding costs incurred), the loss will be absorbed by the NSP and all NSP requirements would be considered to have been satisfied. If net proceeds recaptured are greater than the outstanding balance of NSP funds invested in the property (for all approved activities and holding costs incurred), the balance of net proceeds would be distributed to the homebuyer (or his/her estate). If the recapture of proceeds is effectuated through a completed foreclosure action, and the property is legally owned by ADFA, the balance of net proceeds recaptured will inure to ADFA.

J. Minimum Property Standards

Minimum property standards **must** be met at project completion when NSP funds are used for a project. ADFA has developed "rehabilitation standards" which will be provided to applicants.

At a minimum, the requirements that must be met for all rehabilitation and new construction projects are those set forth in the Section 8 Housing Quality Standards and the ADFA Construction Performance Manual Sections I and II, ,those set by the International Code Council (ICC) (when applicable), and all applicable local, state, and federal requirements. **Single-family units constructed (i.e., new construction and reconstruction) with NSP funds must adhere to Energy Star standards.**

Rehabilitation projects funded with NSP funds must also meet all local codes, rehabilitation standards, zoning ordinances, the cost effective energy conservation and effectiveness standards (24 CFR Part 251), and the Arkansas Energy Code.

Single-family units constructed with NSP funds as part of the homebuyer program must be a minimum of 1,200 square feet heated and cooled with a minimum of three (3) bedrooms and two (2) bathrooms.

K. Universal Design Criteria

The following building design criteria must be included for all NSP-funded homebuyer projects, in accordance with the Arkansas Department of Human Services' *Arkansas Usability Standards in Housing: Guidance Manual for Constructing Inclusive Functional Dwelling* (AUSH):

1. All new construction and reconstruction homebuyer units constructed for persons with disabilities must comply with the Level 5, "All-Inclusive" usability criteria as set forth in the AUSH. The AUSH is available on the internet at the following website address: www.studioaid.org. Under the "Design" link, click on "standards."
2. All exterior and interior doors intended for passage must provide for a minimum clear opening of 34".
3. All rehabilitation, reconstruction, and new construction single-family units in the development will have "closed-fist" operability throughout the unit, (e.g., single handle door levers vs door knobs, push stick lighting and environmental controls, cabinet doors can be opened with a closed first, single handle faucets in bathrooms and kitchen).
4. All primary entries must have entry pad measuring at least 5'x 5'.
5. All walkways/sidewalks must be at least 5' wide.
6. Homebuyer units with NSP funds used as part of the construction must meet at a minimum the Level 1: "Visitable" usability criteria as set forth in the AUSH.

L. Construction Bids

Construction bids (rehabilitation and new construction projects) must be good for a minimum of 60 days from date received by ADFA.

VI. Glossary

Abandoned Property: For purposes of implementing the NSP, an abandoned property is defined as a property abandoned when 1) mortgage or tax foreclosure proceedings have been initiated for that property, 2) no mortgage or tax payment have been made for he property owner for at least ninety (90) days, AND, 3) the property has been vacant for at least ninety (90) days.

Affordability: As used in this guide, affordability refers to the requirements of the NSP that relate to the cost of housing both at initial occupancy and over established timeframes, as prescribed in the HERA and HUD requirements. Affordability requirements vary depending on the nature of the NSP-assisted activity (i.e., homeownership or rental housing).

Affordable Rents: Rents that are at or below the Fair Market Rent (FMR) levels as determined by the U.S. Department of Housing and Urban Development (HUD) per county. (Note: Fair Market Rents include utilities, therefore if a tenant is paying their own utilities, the Utility Allowance published by the local Public Housing Authority (PHA), must be deducted from the maximum FMR). For purposes of the NSP, "affordable rents" shall be in accordance with the HOME Program Rents and FMRs as delineated in the HOME Investment Partnerships Program. The "affordable rents" are as follows:

- Beneficiaries whose total household income is ≤ 50% of AMI – Low HOME Rent
- Beneficiaries whose total household income is 51% - 60% of AMI – High HOME Rent
- Beneficiaries whose total household income is 61% - 120% of AMI – FMR

Annual (Gross) Income: NSP allows the use of one of the three definitions of income: Section 8 annual income (as defined under 24 CFR Part 5); annual income as reported on the U.S. Census Long Form; and adjusted gross income as defined for the purposes of reporting on IRS Form 1040. For the purposes of NSP, ADFA is using the Section 8 annual income definition (as defined under 24 CFR Part 5) to document income eligibility.

Blighted Structure: For the purposes of NSP, a structure is defined as blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.

Commitment: The written, legally binding agreement between the ADFA and the project owner providing NSP funds to a project.

Consolidated Plan: A plan prepared in accordance with the requirements set forth in 24 CFR Part 91, which describes community needs, resources, priorities and proposed activities to be undertaken under certain HUD programs, including the NSP.

Developer: For profit entities assembling, financing, managing and possibly owning NSP deals. For nonprofits, only those carrying out acquisition and rehabilitation are considered developers.

Development: A site or an entire building or two (2) or more buildings, together with the site or sites on which the building are located, that are under common ownership, management and financing and are to be assisted with NSP funds-under commitment by the owner-as a single undertaking.

Development Fees: Compensation to the developer for developing the property, includes overhead and profit, consult/processing agent fees, project administration, the value of personal guarantees and a portion of any reserves determined by the housing credit agency to be in excess of industry norms.

Equity: The value of a property less the amount of outstanding debt on it.

Financing Plan: The proposed financing for a project.

Foreclosed Property: For purposes of implementing the NSP, a foreclosed property is defined as a property that, under state or local law, has a completed mortgage or tax foreclosure process. A foreclosure is not considered to be complete until after the property title has been transferred from the former owner under a foreclosure proceeding or transfer in lieu of foreclosure.

General Partner: A partner who is liable and responsible for completing a project as proposed, managing the partnership and guaranteeing funding required to complete the project. A general partner oversees construction, leasing and property management; maintains the books and records of the partnership; and submits periodic reports to the limited partners on the project's financial status.

General Partnership: A form of ownership in which all partners participate materially in the partnership's operations and share liability.

Interest Subsidy: The amount of subsidy required to reduce the interest rate on a loan to a below-market rate over the term of the loan.

Limited Partner: A passive investor in a limited partnership who, in exchange for contributing equity to the project, receives a pro rata share of cash flow and tax benefits and the right to approve the sale or refinancing of the property

Limited Partnership: An ownership vehicle comprising limited and general partners that allows for central management but has no tax liability, instead passing tax benefits through to its limited and general partners.

Low-Income Family/Person: Family or person whose annual (gross) income does not exceed eighty percent (80%) of the median income for the area (adjusted for family size). HUD may establish, on an exception basis, income ceilings higher or lower than eighty percent (80%) of the median income for an area.

Low-Moderate-Middle Income (LMMI) National Objective: For the purposes of ADFA's implementation of NSP, an activity meets HERA's Low-Moderate-Middle Income (LMMI) National Objective if the assisted activity provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income (abbreviated

Managing General Partner: The general partner responsible for the day-to-day management of a limited or general partnership.

Middle-Income Family/Person: Family or person whose annual (gross) income does not exceed one hundred and twenty percent (120%) of the median income for the area (adjusted for family size). HUD may establish, on an exception basis, income ceilings higher or lower than one hundred and twenty percent (120%) of the median income for an area.

Moderate Rehabilitation: The cost of a rehabilitation project that costs $25,000 or less.

New Construction: Construction of a new housing unit where one did not exist. In addition, any project that includes the creation of additional dwelling units outside the existing walls of a structure is also considered new construction.

NSP-Assisted Unit: Units within a NSP project where NSP funds are used and rent, occupancy and/or resale restrictions apply.

Partnership Agreement: A legal document that specifies the rights and responsibilities of the general and limited partners and governs the ongoing relationship between these parties.

Project: A site or an entire building or two (2) or more buildings, together with the site or sites on which the building are located, that are under common ownership management and financing and are to be assisted with NSP funds – under a commitment by the owner – as a single undertaking.

Reasonable Developer's Fee: For purposes of implementing NSP, a reasonable developer's fee is defined as a fee earned for development of single or multi-family affordable housing which does not exceed ten percent (10%) of total development costs. An NSP proposal may include a developer's fee OR an amount for administration, but not both. The amount of such developer's fee or administration should be clearly indicated in the proposal and included in the total amount of NSP funds requested.

Recapture: Repayment of losses of NSP funds due to lack of performance with applicable performance standards as defined under General Requirements in Section O of this manual.

Reconstruction: The rebuilding, on the same lot, of housing standing on a site at the time of project commitment. The number of housing units on the lot may not be decreased or increased as part of the reconstruction project, but the number of rooms per unit may be increased or decreased.

Restrictive Covenant: A limitation placed on a property, which is recorded and attached to the deed, thereby passing to subsequent owners.

Soft Costs: Development costs exclusive of the cost of acquisition, site improvements, construction and contingencies.

Soft Second Mortgage: A loan provided by public and nonprofit lenders at below-market interest rates and with flexible repayment terms, using as collateral a second mortgage on the project property, to fill a financial gap for a project serving a public purpose (for instance, affordable housing).

SRO Housing: A type of congregate housing in which each resident has a private room but shares common areas (such as dining and living rooms) with other residents.

State Recipient: Any unit of local government designated by a state to receive NSP funds. The state is responsible for ensuring that NSP funds allocated to state recipients are used in accordance with the NSP regulations and other applicable laws.

Subrecipient: :Public agencies and nonprofit organizations that assist the recipient to undertake one or more activities on behalf of the grantee. Does not include for-profit entities or nonprofits carrying out acquisition and rehabilitation projects only.

Substantial Rehabilitation: The cost of a rehabilitation project that costs more than $25,000.

Surplus Cash (Net Operating Income-NOI). The operating income derived by the project owner from development cash flow that exceeds 1st mortgage loan payments and the following operating expenses: property management fee, grounds maintenance, accounting services, amounts deposited into a replacement reserve account, legal services, taxes and insurance, and utility expenses, each specifically related to the development. Developer fees and depreciation of assets may not be included in calculating expenses.

Syndicates: Individuals or firms who arrange for the sale of ownership shares in a project to raise equity from investors.

Targeting: Requirements of the NSP relating to the income or other characteristics of households that may occupy NSP-assisted units.

Total Development Cost ("TDC"): The sum of all costs for site acquisition, relocation, demolition, construction and equipment, interest and carrying charges.

Vacant Properties: Unoccupied structures or vacant land that was once developed.

Very Low-Income Family: Family whose annual (gross) income does not exceed fifty percent (50%) of the median income for the area (adjusted for family size). HUD may establish income ceilings higher or lower than fifty percent (50%) of median income for an area on an exception basis.

VII. Appendix I

The *Needs Score* for areas in Arkansas range from 0 to 100, with a median score of 0.90. ADFA has determined a minimum *Needs Score* of 1.0 to indicate the areas of greatest need. Using LISC's *Needs Score* by U.S. Postal Service zip code area, ADFA has established the following as areas of greatest need ("Priority Areas"), translated into priority points:

Level 1 - U.S.P.S. zip code areas with *Needs Score* $\geq$ 10.0	15 priority points
Level 2 - U.S.P.S. zip code areas with *Needs Score* $\geq$ 3.0 but $\leq$ 9.9	10 priority points
Level 3 - U.S.P.S. zip code areas with *Needs Score* $\geq$ 1.0 but $\leq$ 2.9	5 priority points

A table of the zip codes that are located in the areas of greatest need ("Priority Areas") along with their corresponding Need Score is included below.

In addition, ADFA has designated additional areas of need, translated into additional priority points as indicated next, to be those 15 counties in Arkansas, identified by HUD, with the highest number of foreclosures ("Priority Counties").

Category A - Arkansas counties with 1000 or more foreclosures: Benton County; Pulaski County; and Washington County	10 priority points
Category B - Arkansas counties with 500-999 foreclosures: Craighead County; Garland County; Saline County and Sebastian County	7 priority points
Category C - Arkansas counties with 300-499 foreclosures: Boone County; Crawford County; Crittenden County; Faulkner County; Jefferson County; Lonoke County; Mississippi County; and White County	5 priority points

ZIP CODES IN AREAS OF GREATEST NEED

Zip Code	City	County	Need Score
72026	Casscoe	Arkansas	1
72042	DeWitt	Arkansas	2.6
72160	Stuttgart	Arkansas	9
71635	Crossett	Ashley	7.9
71642	Fountain Hill	Ashley	1.2
71646	Hamburg	Ashley	1.8
72653	Mountain Home	Baxter	3.4
72714	Bella Vista	Benton	4.8
72715	Bella Vista	Benton	1.5
72712	Bentonville	Benton	7.7
72719	Centerton	Benton	5
72722	Decatur	Benton	1.7
72732	Garfield	Benton	1.5
72734	Gentry	Benton	4.6
72736	Gravette	Benton	2.6
72745	Lowell	Benton	4.3
72747	Maysville	Benton	1.4
72751	Pea Ridge	Benton	6.3
72756	Rogers	Benton	13.2
72758	Rogers	Benton	4.1
72761	Siloam Springs	Benton	5.5
72601	Harrison	Boone	4.2
72662	Omaha	Boone	1
71671	Warren	Bradley	5
71766	Thornton	Calhoun	1.6
72616	Berryville	Carroll	1.5
72638	Green Forest	Carroll	1
71638	Dermott	Chicot	2.2
71640	Eudora	Chicot	2.3
71653	Lake Village	Chicot	1.1

Zip Code	City	County	Need Score
71921	Amity	Clark	1.5
71923	Arkadelphia	Clark	3.1
71743	Gurdon	Clark	2.8
72422	Corning	Clay	1.4
72454	Piggott	Clay	5.2
72461	Rector	Clay	3.4
72543	Heber Springs	Cleburne	2.3
72131	Quitman	Cleburne	1.9
72179	Wilburn	Cleburne	1.4
71660	New Edinburg	Cleveland	1
71665	Rison	Cleveland	6
71753	Magnolia	Columbia	5.9
71752	McNeil	Columbia	1
71861	Taylor	Columbia	2.5
71770	Waldo	Columbia	5.7
72027	Center Ridge	Conway	1
72030	Cleveland	Conway	1.4
72110	Morrilton	Conway	4.3
72127	Plumerville	Conway	1.2
72156	Solgohachia	Conway	1.4
72411	Bay	Craighead	1.1
72416	Bono	Craighead	3.6
72417	Brookland	Craighead	4.6
72401	Jonesboro	Craighead	17.5
72404	Jonesboro	Craighead	5.3
72437	Lake City	Craighead	2.6
72921	Alma	Crawford	6
72946	Mountainburg	Crawford	2.9
72947	Mulberry	Crawford	2.4
72956	Van Buren	Crawford	10.7

Zip Code	City	County	Need Score
72327	Crawfordsville	Crittenden	2.4
72331	Earle	Crittenden	3.6
72364	Marion	Crittenden	21.4
72376	Proctor	Crittenden	1.2
72301	West Memphis	Crittenden	98.7
72324	Cherry Valley	Cross	1
72396	Wynne	Cross	4.3
71725	Carthage	Dallas	2.8
71742	Fordyce	Dallas	3.7
71639	Dumas	Desha	4
71654	McGehee	Desha	3.9
71655	Monticello	Drew	4.9
72032	Conway	Faulkner	16.1
72034	Conway	Faulkner	3.2
72047	Enola	Faulkner	1.6
72058	Greenbrier	Faulkner	2.5
72106	Mayflower	Faulkner	3.3
72173	Vilonia	Faulkner	2.6
72933	Charleston	Franklin	2.9
72949	Ozark	Franklin	2.3
71913	Hot Springs National Park	Garland	10.9
71901	Hot Springs National Park	Garland	7.6
71964	Pearcy	Garland	1.9
71968	Royal	Garland	1.3
72084	Leola	Grant	4.8
72128	Poyen	Grant	1.4
72150	Sheridan	Grant	9.1
72443	Marmaduke	Greene	2.7
72450	Paragould	Greene	17.6

Zip Code	City	County	Need Score
71838	Fulton	Hempstead	1.1
71801	Hope	Hempstead	8.8
71862	Washington	Hempstead	1.9
71929	Bismarck	Hot Spring	1.8
72104	Malvern	Hot Spring	19.7
71852	Nashville	Howard	2.8
71859	Saratoga	Howard	1.9
72501	Batesville	Independence	5.3
72527	Desha	Independence	1
72519	Calico Rock	Izard	1.3
72112	Newport	Jackson	3.6
72473	Tuckerman	Jackson	1.7
72004	Altheimer	Jefferson	1.5
72073	Humphrey	Jefferson	2.2
71603	Pine Bluff	Jefferson	62.4
71601	Pine Bluff	Jefferson	49.5
72132	Redfield	Jefferson	1.4
72152	Sherrill	Jefferson	1.2
71602	White Hall	Jefferson	10.1
72830	Clarksville	Johnson	2.9
72840	Hartman	Johnson	2.4
72846	Lamar	Johnson	2.3
71845	Lewisville	Lafayette	1
71860	Stamps	Lafayette	1.6
72433	Hoxie	Lawrence	1.1
72434	Imboden	Lawrence	1.1
72476	Walnut Ridge	Lawrence	2.5
72360	Marianna	Lee	5.3
71644	Grady	Lincoln	1.1
71667	Star City	Lincoln	4.6

Zip Code	City	County	Need Score
71822	Ashdown	Little River	3.9
71836	Foreman	Little River	1.5
72927	Booneville	Logan	2.8
72855	Paris	Logan	1.6
72865	Subiaco	Logan	1.2
72007	Austin	Lonoke	5
72023	Cabot	Lonoke	22.1
72024	Carlisle	Lonoke	1.7
72046	England	Lonoke	1.2
72086	Lonoke	Lonoke	9.4
72176	Ward	Lonoke	12.9
72738	Hindsville	Madison	2.8
72740	Huntsville	Madison	4.2
72776	Witter	Madison	1
72687	Yellville	Marion	1
71837	Fouke	Miller	3.4
71854	Texarkana	Miller	18.5
72315	Blytheville	Mississippi	40.1
72428	Etowah	Mississippi	2.9
72438	Leachville	Mississippi	1.3
72358	Luxora	Mississippi	1.6
72442	Manila	Mississippi	2.4
72370	Osceola	Mississippi	9.9
72395	Wilson	Mississippi	5.3
72021	Brinkley	Monroe	1.2
71857	Prescott	Nevada	7.7
71858	Rosston	Nevada	1.5
71720	Bearden	Ouachita	1
71701	Camden	Ouachita	18.1
71764	Stephens	Ouachita	1

Zip Code	City	County	Need Score
72016	Bigelow	Perry	1.8
72342	Helena	Phillips	9.2
72355	Lexa	Phillips	2.4
72366	Marvell	Phillips	1.2
72374	Poplar Grove	Phillips	1.2
72390	West Helena	Phillips	21.6
71943	Glenwood	Pike	1.3
72432	Harrisburg	Poinsett	2.4
72354	Lepanto	Poinsett	2.8
72472	Trumann	Poinsett	8.8
71953	Mena	Polk	2.5
72823	Atkins	Pope	3
72837	Dover	Pope	2.9
72847	London	Pope	1.2
72858	Pottsville	Pope	1
72801	Russellville	Pope	5.1
72802	Russellville	Pope	3.9
72040	Des Arc	Prairie	1.2
72064	Hazen	Prairie	3.5
72076	Jacksonville	Pulaski	27.3
72209	Little Rock	Pulaski	100
72204	Little Rock	Pulaski	73.1
72206	Little Rock	Pulaski	25.5
72202	Little Rock	Pulaski	8.2
72205	Little Rock	Pulaski	4.8
72210	Little Rock	Pulaski	4.3
72211	Little Rock	Pulaski	2.9
72212	Little Rock	Pulaski	1.5
72113	Maumelle	Pulaski	4.2
72117	North Little Rock	Pulaski	29.8

Zip Code	City	County	Need Score
72118	North Little Rock	Pulaski	23.9
72114	North Little Rock	Pulaski	13.1
72116	North Little Rock	Pulaski	5.5
72142	Scott	Pulaski	1.2
72120	Sherwood	Pulaski	11
72455	Pocahontas	Randolph	3.2
72460	Ravenden Springs	Randolph	1.2
72478	Warm Springs	Randolph	2.1
72326	Colt	Saint Francis	1.1
72335	Forrest City	Saint Francis	18.4
72348	Hughes	Saint Francis	1.9
72002	Alexander	Saline	4.6
72011	Bauxite	Saline	1.9
72015	Benton	Saline	21.4
72022	Bryant	Saline	5.2
72065	Hensley	Saline	1.8
72103	Mabelvale	Saline	14.1
72167	Traskwood	Saline	1.1
72944	Mansfield	Scott	2.7
72958	Waldron	Scott	1.5
72650	Marshall	Searcy	1.1
72923	Barling	Sebastian	1.2
72904	Fort Smith	Sebastian	11
72901	Fort Smith	Sebastian	7.4
72903	Fort Smith	Sebastian	6.2
72908	Fort Smith	Sebastian	3
72936	Greenwood	Sebastian	4.6
72937	Hackett	Sebastian	1.2
72941	Lavaca	Sebastian	3
71832	De Queen	Sevier	1

Zip Code	City	County	Need Score
71842	Horatio	Sevier	1
71846	Lockesburg	Sevier	2.2
71730	El Dorado	Union	12.8
71762	Smackover	Union	1.2
72013	Bee Branch	Van Buren	1.3
72031	Clinton	Van Buren	3.2
72727	Elkins	Washington	2.7
72730	Farmington	Washington	3.6
72701	Fayetteville	Washington	3.3
72704	Fayetteville	Washington	3.2
72703	Fayetteville	Washington	1.4
72744	Lincoln	Washington	1.8
72753	Prairie Grove	Washington	3.8
72764	Springdale	Washington	20.8
72762	Springdale	Washington	10.4
72774	West Fork	Washington	1.7
72959	Winslow	Washington	1
72010	Bald Knob	White	1.4
72012	Beebe	White	5.6
72020	Bradford	White	2.6
72102	McRae	White	1.1
72136	Romance	White	1.1
72137	Rose Bud	White	1
72143	Searcy	White	4.5
72081	Judsonia	White	1.7
72006	Augusta	Woodruff	2.1
72101	McCrory	Woodruff	1.8
72834	Dardanelle	Yell	1.9
72860	Rover	Yell	1.8

Arkansas

Neighborhood Stabilization Program Income Limits

(FY 2009 Income Limits for 50% of HUD Area Median)

Areaname	County/Town Name	1 person household	2 person household	3 person household	4 person household	5 person household	6 person household	7 person household	8 person household
Arkansas County, AR	Arkansas County	16,200	18,500	20,850	23,150	25,000	26,850	28,700	30,550
Ashley County, AR	Ashley County	16,050	18,350	20,650	22,950	24,800	26,600	28,450	30,300
Baxter County, AR	Baxter County	15,250	17,450	19,600	21,800	23,550	25,300	27,050	28,800
Fayetteville-Springdale-Rogers, AR HUD Metro FMR Area	Benton County	19,600	22,400	25,200	28,000	30,250	32,500	34,700	36,950
Boone County, AR	Boone County	16,550	18,900	21,300	23,650	25,550	27,450	29,350	31,200
Bradley County, AR	Bradley County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Calhoun County, AR	Calhoun County	15,400	17,600	19,800	22,000	23,750	25,500	27,300	29,050
Carroll County, AR	Carroll County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Chicot County, AR	Chicot County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Clark County, AR	Clark County	16,500	18,850	21,200	23,550	25,450	27,300	29,200	31,100
Clay County, AR	Clay County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Cleburne County, AR	Cleburne County	16,650	19,000	21,400	23,750	25,650	27,550	29,450	31,350
Pine Bluff, AR MSA	Cleveland County	16,650	19,000	21,400	23,750	25,650	27,550	29,450	31,350
Columbia County, AR	Columbia County	16,100	18,400	20,700	23,000	24,850	26,700	28,500	30,350
Conway County, AR	Conway County	17,000	19,400	21,850	24,250	26,200	28,150	30,050	32,000
Jonesboro, AR HUD Metro FMR Area	Craighead County	18,350	20,950	23,600	26,200	28,300	30,400	32,500	34,600
Fort Smith, AR-OK HUD Metro FMR Area	Crawford County	16,300	18,600	20,950	23,250	25,100	26,950	28,850	30,700
Memphis, TN-MS-AR HUD Metro FMR Area	Crittenden County	20,250	23,100	26,000	28,900	31,200	33,500	35,850	38,150
Cross County, AR	Cross County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Dallas County, AR	Dallas County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Desha County, AR	Desha County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Drew County, AR	Drew County	16,600	18,950	21,350	23,700	25,600	27,500	29,400	31,300
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Faulkner County	21,250	24,300	27,300	30,350	32,800	35,200	37,650	40,050
Franklin County, AR HUD Metro FMR Area	Franklin County	16,100	18,400	20,700	23,000	24,850	26,700	28,500	30,350
Fulton County, AR	Fulton County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Hot Springs, AR MSA	Garland County	16,750	19,100	21,500	23,900	25,800	27,700	29,650	31,550
Grant County, AR HUD Metro FMR Area	Grant County	19,100	21,800	24,550	27,250	29,450	31,600	33,800	35,950
Greene County, AR	Greene County	16,500	18,850	21,200	23,550	25,450	27,300	29,200	31,100
Hempstead County, AR	Hempstead County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Hot Spring County, AR	Hot Spring County	16,850	19,250	21,650	24,050	25,950	27,900	29,800	31,750
Howard County, AR	Howard County	15,350	17,500	19,700	21,900	23,650	25,400	27,150	28,900
Independence County, AR	Independence County	16,300	18,650	20,950	23,300	25,150	27,050	28,900	30,750
Izard County, AR	Izard County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Jackson County, AR	Jackson County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Pine Bluff, AR MSA	Jefferson County	16,650	19,000	21,400	23,750	25,650	27,550	29,450	31,350
Johnson County, AR	Johnson County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Lafayette County, AR	Lafayette County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Lawrence County, AR	Lawrence County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Lee County, AR	Lee County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Pine Bluff, AR MSA	Lincoln County	16,650	19,000	21,400	23,750	25,650	27,550	29,450	31,350

Arkansas

Neighborhood Stabilization Program Income Limits

(FY 2009 Income Limits for 50% of HUD Area Median)

Areaname	County/Town Name	1 person household	2 person household	3 person household	4 person household	5 person household	6 person household	7 person household	8 person household
Little River County, AR	Little River County	16,100	18,400	20,700	23,000	24,850	26,700	28,500	30,350
Logan County, AR	Logan County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Lonoke County	21,250	24,300	27,300	30,350	32,800	35,200	37,650	40,050
Fayetteville-Springdale-Rogers, AR HUD Metro FMR Area	Madison County	19,600	22,400	25,200	28,000	30,250	32,500	34,700	36,950
Marion County, AR	Marion County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Texarkana, TX-Texarkana, AR MSA	Miller County	18,100	20,700	23,250	25,850	27,900	30,000	32,050	34,100
Mississippi County, AR	Mississippi County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Monroe County, AR	Monroe County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Montgomery County, AR	Montgomery County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Nevada County, AR	Nevada County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Newton County, AR	Newton County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Ouachita County, AR	Ouachita County	15,650	17,900	20,100	22,350	24,150	25,950	27,700	29,500
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Perry County	21,250	24,300	27,300	30,350	32,800	35,200	37,650	40,050
Phillips County, AR	Phillips County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Pike County, AR	Pike County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Poinsett County, AR HUD Metro FMR Area	Poinsett County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Polk County, AR	Polk County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Pope County, AR	Pope County	17,100	19,550	22,000	24,450	26,400	28,350	30,300	32,250
Prairie County, AR	Prairie County	16,050	18,350	20,650	22,950	24,800	26,600	28,450	30,300
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Pulaski County	21,250	24,300	27,300	30,350	32,800	35,200	37,650	40,050
Randolph County, AR	Randolph County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
St. Francis County, AR	St. Francis County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Saline County	21,250	24,300	27,300	30,350	32,800	35,200	37,650	40,050
Scott County, AR	Scott County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Searcy County, AR	Searcy County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Fort Smith, AR-OK HUD Metro FMR Area	Sebastian County	16,300	18,600	20,950	23,250	25,100	26,950	28,850	30,700
Sevier County, AR	Sevier County	15,350	17,550	19,750	21,950	23,700	25,450	27,200	28,950
Sharp County, AR	Sharp County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Stone County, AR	Stone County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Union County, AR	Union County	16,400	18,750	21,100	23,450	25,350	27,200	29,100	30,950
Van Buren County, AR	Van Buren County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Fayetteville-Springdale-Rogers, AR HUD Metro FMR Area	Washington County	19,600	22,400	25,200	28,000	30,250	32,500	34,700	36,950
White County, AR	White County	16,650	19,000	21,400	23,750	25,650	27,550	29,450	31,350
Woodruff County, AR	Woodruff County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700
Yell County, AR	Yell County	15,250	17,400	19,600	21,750	23,500	25,250	26,950	28,700

Arkansas

Neighborhood Stabilization Program Income Limits

(FY 2009 Income Limits for 120% of HUD Area Median)

Areaname	County/Town Name	1 person household	2 person household	3 person household	4 person household	5 person household	6 person household	7 person household	8 person household
Arkansas County, AR	Arkansas County	38,900	44,450	50,000	55,550	60,000	64,450	68,900	73,350
Ashley County, AR	Ashley County	38,550	44,050	49,550	55,100	59,500	63,900	68,300	72,700
Baxter County, AR	Baxter County	36,600	41,850	47,100	52,300	56,500	60,700	64,900	69,050
Fayetteville-Springdale-Rogers, AR HUD Metro FMR Area	Benton County	47,050	53,750	60,500	67,200	72,600	77,950	83,350	88,700
Boone County, AR	Boone County	39,750	45,400	51,100	56,750	61,300	65,850	70,400	74,900
Bradley County, AR	Bradley County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Calhoun County, AR	Calhoun County	36,950	42,250	47,500	52,800	57,000	61,250	65,450	69,700
Carroll County, AR	Carroll County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Chicot County, AR	Chicot County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Clark County, AR	Clark County	39,550	45,200	50,850	56,500	61,050	65,550	70,100	74,600
Clay County, AR	Clay County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Cleburne County, AR	Cleburne County	39,900	45,600	51,300	57,000	61,550	66,100	70,700	75,250
Pine Bluff, AR MSA	Cleveland County	39,900	45,600	51,300	57,000	61,550	66,100	70,700	75,250
Columbia County, AR	Columbia County	38,650	44,150	49,700	55,200	59,600	64,050	68,450	72,850
Conway County, AR	Conway County	40,750	46,550	52,400	58,200	62,850	67,500	72,150	76,800
Jonesboro, AR HUD Metro FMR Area	Craighead County	44,000	50,300	56,600	62,900	67,900	72,950	77,950	83,000
Fort Smith, AR-OK HUD Metro FMR Area	Crawford County	39,050	44,650	50,200	55,800	60,250	64,750	69,200	73,650
Memphis, TN-MS-AR HUD Metro FMR Area	Crittenden County	48,550	55,500	62,400	69,350	74,900	80,450	86,000	91,550
Cross County, AR	Cross County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Dallas County, AR	Dallas County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Desha County, AR	Desha County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Drew County, AR	Drew County	39,800	45,500	51,200	56,900	61,450	66,000	70,550	75,100
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Faulkner County	51,000	58,250	65,550	72,850	78,650	84,500	90,300	96,150
Franklin County, AR HUD Metro FMR Area	Franklin County	38,650	44,150	49,700	55,200	59,600	64,050	68,450	72,850
Fulton County, AR	Fulton County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Hot Springs, AR MSA	Garland County	40,150	45,900	51,600	57,350	61,950	66,550	71,150	75,700
Grant County, AR HUD Metro FMR Area	Grant County	45,800	52,300	58,850	65,400	70,650	75,850	81,100	86,350
Greene County, AR	Greene County	39,550	45,200	50,850	56,500	61,050	65,550	70,100	74,600
Hempstead County, AR	Hempstead County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Hot Spring County, AR	Hot Spring County	40,400	46,200	51,950	57,700	62,350	66,950	71,550	76,200
Howard County, AR	Howard County	36,800	42,050	47,300	52,550	56,750	60,950	65,150	69,400
Independence County, AR	Independence County	39,150	44,750	50,350	55,900	60,400	64,850	69,350	73,800
Izard County, AR	Izard County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Jackson County, AR	Jackson County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Pine Bluff, AR MSA	Jefferson County	39,900	45,600	51,300	57,000	61,550	66,100	70,700	75,250
Johnson County, AR	Johnson County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Lafayette County, AR	Lafayette County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Lawrence County, AR	Lawrence County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Lee County, AR	Lee County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Pine Bluff, AR MSA	Lincoln County	39,900	45,600	51,300	57,000	61,550	66,100	70,700	75,250

Arkansas
Neighborhood Stabilization Program Income Limits
(FY 2009 Income Limits for 120% of HUD Area Median)

Areaname	County/Town Name	1 person household	2 person household	3 person household	4 person household	5 person household	6 person household	7 person household	8 person household
Little River County, AR	Little River County	38,650	44,150	49,700	55,200	59,600	64,050	68,450	72,850
Logan County, AR	Logan County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Lonoke County	51,000	58,250	65,550	72,850	78,650	84,500	90,300	96,150
Fayetteville-Springdale-Rogers, AR HUD Metro FMR Area	Madison County	47,050	53,750	60,500	67,200	72,600	77,950	83,350	88,700
Marion County, AR	Marion County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Texarkana, TX-Texarkana, AR MSA	Miller County	43,450	49,650	55,850	62,050	67,000	71,950	76,950	81,900
Mississippi County, AR	Mississippi County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Monroe County, AR	Monroe County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Montgomery County, AR	Montgomery County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Nevada County, AR	Nevada County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Newton County, AR	Newton County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Ouachita County, AR	Ouachita County	37,550	42,900	48,300	53,650	57,950	62,200	66,500	70,800
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Perry County	51,000	58,250	65,550	72,850	78,650	84,500	90,300	96,150
Phillips County, AR	Phillips County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Pike County, AR	Pike County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Poinsett County, AR HUD Metro FMR Area	Poinsett County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Polk County, AR	Polk County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Pope County, AR	Pope County	41,100	46,950	52,800	58,700	63,350	68,050	72,750	77,450
Prairie County, AR	Prairie County	38,550	44,050	49,550	55,100	59,500	63,900	68,300	72,700
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Pulaski County	51,000	58,250	65,550	72,850	78,650	84,500	90,300	96,150
Randolph County, AR	Randolph County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
St. Francis County, AR	St. Francis County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Little Rock-North Little Rock-Conway, AR HUD Metro FMR Area	Saline County	51,000	58,250	65,550	72,850	78,650	84,500	90,300	96,150
Scott County, AR	Scott County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Searcy County, AR	Searcy County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Fort Smith, AR-OK HUD Metro FMR Area	Sebastian County	39,050	44,650	50,200	55,800	60,250	64,750	69,200	73,650
Sevier County, AR	Sevier County	36,900	42,150	47,400	52,700	56,900	61,100	65,300	69,550
Sharp County, AR	Sharp County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Stone County, AR	Stone County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Union County, AR	Union County	39,400	45,000	50,650	56,300	60,800	65,300	69,800	74,300
Van Buren County, AR	Van Buren County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Fayetteville-Springdale-Rogers, AR HUD Metro FMR Area	Washington County	47,050	53,750	60,500	67,200	72,600	77,950	83,350	88,700
White County, AR	White County	39,900	45,600	51,300	57,000	61,550	66,100	70,700	75,250
Woodruff County, AR	Woodruff County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900
Yell County, AR	Yell County	36,550	41,750	47,000	52,200	56,400	60,550	64,750	68,900

Guidance on NSP Appraisals – Voluntary Acquisitions

Acquisitions financed with NSP grant funds are subject to the URA, and its implementing regulations at 49 CFR Part 24, and the requirements set forth in the NSP Notice that was published in the Federal Register on October 6, 2008. HUD anticipates that most of these transactions will qualify as voluntary acquisitions under the applicable regulations of 49 CFR 24.101(b). The URA regulations do not specifically require appraisals in connection with voluntary acquisitions under 49 CFR 24.101(b). However, the NSP Notice requires appraisals to be performed with respect to the NSP funded acquisition of foreclosed upon homes and residential properties, even though they may be considered voluntary under the URA. In those cases, the URA appraisal requirements of 49 CFR 24.103 must be met. The following guidance on appraisals pertains to acquisitions of foreclosed upon homes and residential properties which meet the applicable voluntary acquisition requirements of 49 CFR 24.101(b) and reflects applicable URA requirements and the NSP requirements, including the URA appraisal requirements of 49 CFR 24.103.

1. The NSP grantee must ensure that the owner is informed in writing of what the grantee believes to be the market value of the property; and that the NSP grantee will not acquire the property if negotiations fail to result in a an amicable agreement (see 49 CFR 24.101(b)(1) & (b)(2)).

2. If NSP funds are to be used to acquire a foreclosed upon home or residential property (other than through donation), the grantee must ensure that the purchase price includes a discount from the value established by an appraisal that meets the following requirements:

    a. The appraisal must have been completed within 60 days of the offer made for the property (we have advised that an initial offer can be made, subject to the completion of the appraisal within 60 days of a final offer).

    b. The appraisal must meet the URA definition of an appraisal (see 49 CFR 24.2(a)(3) and the five following requirements (see 49 CFR 24.103(a)(2)):

        i. An adequate description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, an adequate description of the remaining property), including items identified as personal property, a statement of the known and observed encumbrances, if any, title information, location, zoning, present use, an analysis of highest and best use, and at least a 5-year sales history of the property.

        ii. All relevant and reliable approaches to value. If the appraiser uses more than one approach, there shall be an analysis and reconciliation of approaches to value used that is sufficient to support the appraiser's opinion of value.

iii. A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction.

iv. A statement of the value of the real property to be acquired and, for a partial acquisition, a statement of the value of the damages and benefits, if any, to the remaining real property, where appropriate.

v. The effective date of valuation, date of appraisal, signature, and certification of the appraiser.

c. The appraiser shall disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired or by the likelihood that the property would be acquired for the project, other than that due to physical deterioration within the reasonable control of the owner.

d. If the owner of a real property improvement is permitted to retain it for removal from the project site, the amount to be offered for the interest in the real property to be acquired shall be not less than the difference between the amount determined to be just compensation for the owner's entire interest in the real property and the salvage value (defined at §24.2(a)(24)) of the retained improvement.

3. The NSP grantee has a legitimate role in contributing to the appraisal process, especially in developing the scope of work and defining the appraisal problem. The scope of work and development of an appraisal under these requirements depends on the complexity of the appraisal problem. HUD's guide to preparing an appraisal scope of work under the URA is available in HUD Handbook 1378-Appendix 19 or through the following link:

   http://www.hud.gov/offices/adm/hudclips/handbooks/cpdh/1378.0/1378x19CPDH.pdf

4. The NSP grantee shall establish criteria for determining the minimum qualifications and competency of appraisers. Qualifications shall be consistent with the scope of work for the assignment. The NSP grantee shall review the experience, education, training, certification/licensing, designation(s) and other qualifications of appraisers, and use only those determined by the NSP grantee to be qualified.

5. If the NSP grantee uses a contract (fee) appraiser to perform the appraisal, such appraiser shall be State licensed or certified in accordance with title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (12 U.S.C. 3331 *et seq.*).

Questions:

1. **Can the lender's appraisal be used if it is reviewed for compliance with the URA requirements?**

   Yes, if it meets the requirements in 2-5 above.

2. **Must appraisals for the voluntary acquisition of NSP funded foreclosed upon homes and residential properties have a review appraisal performed?**

   No. Although the URA criteria for appraisals refer to qualifications for review appraisers, the NSP grantee is not required to have a review appraisal performed in connection with voluntary acquisitions under 49 CFR 24.101(b).

3. **Must a scope of work be developed?**

   Yes, if the NSP grantee is procuring the services of an appraiser (or requires someone else to procure those services) or is relying on a lender's (the owner of the foreclosed upon property) appraisal that is determined by the NSP grantee to meet above requirements. No, if the appraisal is performed by otherwise qualified in-house appraisal staff, although it is still advisable in such cases.

Guidance on NSP-Eligible Acquisition & Rehabilitation Activities

This NSP Policy Guidance **describes how to determine whether or not a property is eligible for acquisition and or rehabilitation with NSP funds.** The following criteria will help determine eligibility: the NSP Notice published in the Federal Register on October 6, 2008 (statutory program requirements, waivers granted, and alternative requirements applied), timing parameters, acquisition protocols, a written agreement with any Third Party Entities (see page 3 for definition) prior to obligation of funds, and options for NSP acquisition assistance.

NSP Notice

The NSP Notice provides the criteria for acquiring and rehabilitating property under NSP. The Notice states that properties must have been **abandoned, foreclosed upon, or vacant** to qualify for NSP acquisition assistance (see Attachment). In purchasing homes and residential properties that have been foreclosed upon with NSP assistance, such **properties must be acquired out of foreclosure, meaning directly from the entities that obtained title to the properties through foreclosure (e.g., the lender or trustee for holders of obligations secured by mortgage liens). The acquisition of properties that have been abandoned with NSP assistance must occur while they are in abandonment status.**

Timing Parameters

NSP acquisitions are not authorized to begin until the grantee has submitted an action plan amendment to HUD. For most NSP grantees, the earliest acquisition start date would be December 1, 2008, but for those grantees that submitted an action plan amendment prior to December 1, 2008, an earlier date could be acceptable. For subgrantees, subrecipients, and other "Third Party Entities" (see definition on page 3), other requirements must first be met, as described in the Matrix on page 4.

Acquisition Procedures

In addition to submitting an action plan amendment, **NSP grantees and Third Party Entities alike must comply with the environmental review, purchase discount and appraisal (if foreclosed) and other eligible-use criteria** discussed in the Guidance on Eligible Uses prior to acquiring properties under NSP.

Agreements to Use NSP Funds

If the acquisition is performed by an "outside entity," the **grantee must give permission or enter into an agreement with the outside entity prior to the acquisition in order to qualify for NSP assistance under Eligible Use B. Properties acquired out of foreclosure before these requirements have been met are no longer foreclosed or abandoned and therefore are only eligible for NSP assistance activities identified under Eligible Use E (if vacant).** This agreement may take the form of a contract, written commitment, preliminary commitment or other form that clearly describes the responsibilities and the requirements of each party. See the Attachment for a more extensive discussion of agreements with Third Party Entities.

Options for NSP Acquisition Assistance

There are a variety of options that can be used to acquire property under NSP. HUD regulations distinguish eligible entities based on those identified in §570.201(a), §570.202(b), §570.202(n) and §570.204. Depending on which category your entity falls into there are different requirements that must be followed to ensure compliance with NSP regulations. Listed below is a chart that explains the revenue implications, selection criteria and OMB Circular requirements that apply for acquisitions under NSP. Detailed explanations follow on page 3.

CDBG Regulations	Entity	Selection Criteria		Revenue Implications	OMB Requirements		
		C	NC	Treated as Program Income	Part 85/ A-87	Part 84/ A-122	A-133
§570.201(a)	**NSP Grantee**	NA	NA	Yes	Yes	No	Yes
	Subrecipient	GD	GD	Yes	No	Yes	Yes
§570.202(b)	**NSP Grantee**	NA	NA	Yes	Yes	No	Yes
	Developer: For Profit, Private Nonprofit	GD	GD	No	No	No	No
	Subrecipient: Public Entity	GD	GD	Yes	Yes	No	Yes
	Subrecipient: Private Nonprofit				No	Yes	
	Individual Beneficiary	GD	GD	No	NA	NA	NA
§570.201(n)	**Individual Beneficiary**	GD	GD	No	NA	NA	NA
§570.204	**CBDO**	GD	GD	No	No	Yes	No

C – Competitive
NC – Non-competitive
NA – Not applicable
GD – Grantee determination
CBDO – Community-Based Development Organization
Individual Beneficiary – a homeowner who will occupy an NSP home as a primary residence

See following page for more detailed discussion of terms and regulatory bases.

Definition of Third Party Entities

Third Party Entities include subrecipients, individuals, and other private entities such as for-profit developers, non-profit developers or other entities. How they are selected, generate revenue, and keep records, summarized in the Table above, is described more fully below.

Public Entity or Private Nonprofit as subrecipient – Non-profit organizations and public entities under §570.201(a) can be designated by the NSP grantee as subrecipients, without a procurement process (See §570.500(c) for guidance). However, subrecipient agreements must conform to all the regulations under §570.503. Any revenues exceeding costs captured from properties sold or leased are classified as program income and must be used for NSP-eligible activities. At their option, grantees may allow subrecipients to retain Program Income, subject to §570.503 and 504.

Private Nonprofit, a For-profit organization, or an Individual as developer (not a subrecipient) – Non-profit organizations, For-profit organizations or individuals under §570.202(b)(1) can be given assistance to acquire residential property for the purposes of rehabilitation, resale, or use. The sales price of properties sold to NSP income-eligible individuals cannot exceed total costs (acquisition, rehabilitation, and development costs). Therefore, entities treated as developers must work within these parameters to generate a profit.

If engaged in rehabilitation, or for acquisition prior to rehabilitation, entities treated as developers may be selected through a competitive procurement process or may be designated as grant recipients without a procurement process. See §85.36 for procurement guidance. For rental projects or others not sold to individuals for use as a primary residence, revenues are not considered Program Income.

In addition, such entities are not subject to recordkeeping or audit requirements that do apply to subrecipients. This flexibility creates a burden on the grantee to underwrite all such transactions to avoid undue enrichment.

Community-Based Development Organizations (CBDO) – CBDOs are governed by the regulations in §570.204 and can be either nonprofit or for-profit entities. CBDOs can be treated as developers or subrecipients and would be subject to the same rules applied above depending on the grantee's determination of the relationship (whether the NSP grantee chooses to treat the CBDO as a developer or as a subrecipient).

Timeline Matrix

The following Matrix describes the **recommended sequence of events for grantees carrying out NSP activities directly and for those grantees that carry out NSP activities in collaboration with Third Party Entities**. These examples assume a simple transaction under Eligible Use B, in which property is acquired, rehabilitated, and sold, but the principles of these examples apply to all NSP assisted acquisitions and rehabilitation activities. The **requirements under B can be undertaken in any order, but MUST be performed prior to a commitment of funds** or a "choice-limiting action" as described in the Environmental regulations at 24 CFR Part 58. HUD encourages grantees to undertake tiered reviews, which can generally be completed for a group of properties in advance of the other steps in the process. Starting early also reduces the potential for delays at State Historic Preservation Offices.

RECOMMENDED SEQUENCE OF EVENTS FOR NSP ACQUISITION AND REHABILITATION

	Direct Grantee	Subrecipient (on behalf of grantee)	Private Developer (for-profit, non-profit)	Individual: Homeowner-Occupant
A. BEFORE grant award				
PRE-AWARD	May initiate activities before grant award by meeting all requirements and 570.200(h)	May initiate action **only with explicit approval** of grantee and in compliance with all requirements in Section B.		No action advisable prior to grantee's receipt of funds.
B. AFTER grant award (No required sequence but MUST precede funds obligation)				
AGREEMENTS	Internal agreements not required for any department under the grantee's jurisdiction.	Receive approval from grantee with agreement on who does what, when, how.		Apply to grantee or subrecipient to qualify based on income and other requirements. Receive preliminary approval to participate in NSP Program.
		If permitted in agreement, subrecipient may incur administrative costs.	Developers MAY NOT incur administrative costs, but may charge fees and earn profits.	
PROPERTIES	Locate one or more foreclosed, abandoned, or vacant properties in the areas of greatest need to acquire for the NSP. Ensure property qualifies, by location, type, condition, etc.			Find eligible property, in collaboration with NSP grantee or other party.
PRE-ACQUISITION REQUIREMENTS **1. Environmental**	Environmental review **MUST** be completed before committing funds. Only grantee can certify review & request release of funds	Work with grantee to understand what must be done and ensure no commitment of funds (choice-limiting action) before release of funds. Grantee alone can certify and request release of funds.		Not Applicable No role for Individual
2. Appraisal	Order URA-compliant Appraisal if foreclosed property or if sale not voluntary. Sale is not voluntary when potential exists for eminent domain if agreement cannot be reached.			Grantee will inform if Individual is required to obtain appraisal.
3. Uniform Relocation Act	Determine other URA applicability (e.g. relocation). American Recovery and Reinvestment Act places added restrictions on acquiring properties with tenants.			Not Applicable
4. Purchase Discount	Negotiate purchase discount with seller-servicer *if foreclosed.*	Consult with grantee on process for purchase price discount with seller-servicer; only applies *if property is foreclosed upon.*		
C. Purchase and Post-Purchase Phase				
ELIGIBILITY ATTAINED	After this point, the property has eligibly been acquired. It retains this status through any subsequent sales or transfers, such as directly to an eligible end user, or to another entity for rehabilitation and later sale to an eligible end user (LMMI family).			
REHABILITATION AND FINANCING OPTIONS	If the home is in need of repair and/or financial subsidy to make it affordable to LMMI, there are different options based on the type of property (foreclosed, vacant, etc.) and which NSP Eligible Use the grantee has employed. See the NSP Policy Guidance page for more detailed discussion of Eligible Uses (and property types) and Homeownership Assistance.			
INELIGIBLE PURCHASES	If a participant has acquired a property BEFORE meeting all the requirements above, the home is generally considered ineligible because it is no longer "foreclosed or abandoned". However, some NSP assistance may still be possible; see Attachment for discussion.			

DEFINITIONS AND EXPLANATIONS

NSP-Eligible Acquisition Property Types

From Housing and Economic Recovery Act, Sec. 2301 (c)(3) and (f)(3)):

(A) purchase and redevelopment of foreclosed upon homes and residential properties,
(B) purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon,
(C) land banks for homes that have been foreclosed upon,
(E) redevelop demolished and vacant properties, and
(From the 25% set-aside for low-income families), purchase and redevelopment of abandoned or foreclosed upon homes and residential properties.

Potential Considerations for Agreements with Third Party Entities

The Agreement may include, but is not limited to, these considerations:

- Effective start and completion dates,
- Appropriate locations in which to purchase (areas of greatest need),
- Property types (abandoned, foreclosed, vacant, homes and/or residential properties),
- If foreclosed, need for appraisal and purchase discount,
- Selection criteria (quality, price, level of repairs needed, terms),
- Need for complete environmental review and release of funds prior to closing,
- Estimated/maximum amounts of NSP funds per unit and number of units,
- Financial considerations (loan, grant, reimbursement process, etc.),
- Responsibility for rehabilitation, if required,
- Eligible purchasers/tenants, affordable rents, continued affordability,
- Deadlines for completion, disposition procedures,
- Financial records,
- Recordkeeping and documentation requirements; see especially 570.506(h) for developers.

Ineligible Acquisitions and Subsequent Participation

If a participant has acquired a property before meeting all the requirements above, the building is generally considered ineligible for NSP acquisition assistance under Eligible Use B because it is no longer "foreclosed or abandoned". However, acquisition is an option for activities identified under Eligible Use E and if the grantee planned to rehabilitate the home, the grantee (or Third Party Entity, with grantee approval) may eligibly use NSP funding for financing and rehabilitation (if granted an Exception by HUD)